PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 58.7 MILLION (US$ 80.9 MILLION EQUIVALENT)

TO THE

REPUBLIC OF UGANDA

FOR THE

LOCAL GOVERNMENT DEVELOPMENT PROGRAM

October 28, 1999

Water and Urban 1
Tanzania & Uganda Country Department
Africa Regional Office
CURRENCY EQUIVALENTS

(Exchange Rate Effective April 1997)

Currency Unit = Uganda Shillings (USh)
USh = US$0.001
US$ = USh 1000

FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CAS</td>
<td>Country Assistance Strategy</td>
</tr>
<tr>
<td>CBO</td>
<td>Community Beneficiary Organization</td>
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<tr>
<td>DDP-Pilot</td>
<td>District Development Project - Pilot</td>
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<tr>
<td>DFID</td>
<td>Department for International Development</td>
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<tr>
<td>EFMP II</td>
<td>Second Economic and Financial Management Project</td>
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<td>GoU</td>
<td>Government of Uganda</td>
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<td>FUP</td>
<td>First Urban Project</td>
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<tr>
<td>ICB</td>
<td>International Competitive Bidding</td>
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<td>ICBP</td>
<td>Institutional Capacity Building Project</td>
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<tr>
<td>IDA</td>
<td>International Development Association</td>
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<tr>
<td>KCC</td>
<td>Kampala City Council</td>
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<tr>
<td>LACI</td>
<td>Loan Administration Change Initiative</td>
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<tr>
<td>LGDP</td>
<td>Local Government Development Program</td>
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<tr>
<td>LGs</td>
<td>Local Governments</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
</tr>
<tr>
<td>MoFPED</td>
<td>Ministry of Finance, Planning and Economic Development</td>
</tr>
<tr>
<td>MoLG</td>
<td>Ministry of Local Government</td>
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<tr>
<td>NCRP</td>
<td>Nakivubo Channel Rehabilitation Project</td>
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<tr>
<td>NGO</td>
<td>Non Governmental Organization</td>
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<tr>
<td>O&amp;M</td>
<td>Operations and Maintenance</td>
</tr>
<tr>
<td>PIP</td>
<td>Program Implementation Plan</td>
</tr>
<tr>
<td>PMR</td>
<td>Project Management Report</td>
</tr>
<tr>
<td>PPF</td>
<td>Project Preparation Facility</td>
</tr>
<tr>
<td>PHRD</td>
<td>Policy and Human Resources Development</td>
</tr>
<tr>
<td>SDR</td>
<td>Special Drawing Rights</td>
</tr>
<tr>
<td>SFR</td>
<td>Strategic Framework for Reform</td>
</tr>
<tr>
<td>SOE</td>
<td>Statement of Expenditure</td>
</tr>
<tr>
<td>UNCDF</td>
<td>United Nations Capital Development Fund</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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</table>

Vice President : Callisto E. Madavo
Country Director : James W. Adams
Sector Manager : Jeffrey S. Racki
Task Team Leader : Gautam Sengupta
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Maps: IBRD No. 30513
      IBRD No. 30514
The Republic of Uganda  
Local Government Development Program  

Project Appraisal Document  

Africa Region – Country Department 4

<table>
<thead>
<tr>
<th>Date:</th>
<th>October 28, 1999</th>
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</thead>
<tbody>
<tr>
<td>Team Leader:</td>
<td>Gautam Sengupta</td>
</tr>
<tr>
<td>Country Manager/Director:</td>
<td>James W. Adams</td>
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<tr>
<td>Project ID:</td>
<td>2992</td>
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<tr>
<td>Sector Manager/Director:</td>
<td>Jeffrey S. Racki</td>
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<tr>
<td>Lending Instrument:</td>
<td>Specific Investment Loan (SIL)</td>
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<td>Poverty Targeted Intervention:</td>
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### Project Financing Data

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<th>Source</th>
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<th>Foreign</th>
<th>Total</th>
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<tr>
<td>IDA</td>
<td>50.7</td>
<td>30.2</td>
<td>80.9</td>
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<td>GoU/KCC/LGs</td>
<td>7.2</td>
<td>1.8</td>
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<tr>
<td>Total</td>
<td>57.9</td>
<td>32.0</td>
<td>89.9</td>
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Borrower: Republic of Uganda  
Guarantor: Not Applicable  
Responsible agency: Ministry of Local Government  
Implementing agency(ies): Ministry of Local Government, Ministry of Finance, Planning and Economic Development, Kampala City Council, Local Governments  
Address: Program Management Unit, Ministry of Local Government, P.O. Box 7723, Kampala, Uganda  
Contact Person: Mr. Martin Onyach-Olaa  
Telephone: (256-41) 232-741  
Fax: (256-41) 232-936  
Email: peri@imul.com

Estimated disbursements (Bank FY/US$M):

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<tr>
<th>FY</th>
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<th>2001</th>
<th>2002</th>
<th>2003</th>
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<tr>
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<td>31.2</td>
<td>36.5</td>
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<td>Cumulative</td>
<td>19.3</td>
<td>50.5</td>
<td>87.0</td>
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Project implementation period: 4 years  
Expected effectiveness date: January 1, 2000  
Expected closing date: June 30, 2003
A: PROJECT DEVELOPMENT OBJECTIVE

1. Project development objective:  (see Annex 1)

1. The four key development objectives of the Local Government Development Program (LGDP) are to:

(i) Test the feasibility of implementing constitutional and legal mandates with respect to decentralized service provision and devolution of the development budget through the provision of investments funds to the Local Governments (LGs).

(ii) Build the capacity of the Ministry of Local Government (MoLG), the Local Government Finance Commission Secretariat (LGFC) and a sub-set of the Local Governments for improved service delivery, accountability and transparency.

(iii) Test and institute alternative service delivery mechanisms through the private sector, beneficiary communities and other stakeholders in Kampala City Council.

(iv) Monitor and evaluate project implementation for actual experience and good practices for formulating an appropriate strategy, implementation modalities, and phasing for eventual scaling up nationally, over time.

2. LGDP is conceived as an initial pilot phase of a long-term effort to assist the Central Government and Local Governments in their implementation of a national mandate to devolve the development budget and decentralize the provision of basic public services. LGDP will aim to improve LGs' performance of their statutory service obligations through the delivery of effective, efficient and participatory local government planning, budgeting and resource allocation procedures, and enhance the capacities of the Ministry of Local Government, the Local Government Finance Commission Secretariat and the LGs to better deliver on their mandate and consequently contribute towards the national development goal of economic growth and reduction of poverty.

2. Key performance indicators:  (see Annex 1)

3. Progress in achieving the objectives of the project will be evaluated on the basis of the following performance indicators:

- Better planning, financing and delivery of services by the LGs in a sustainable manner.
- Strengthened and effective MoLG and LGFC delivering on their statutory mandates.
- Improved applications of the provisions of the Local Governments Act, 1997 and the Local Government Financial and Accounting Regulations, 1998 by LGs in their operations.
- Better coverage and lower unit costs of various public services delivered.
- Increased delivery of basic public services by the private sector.
- A sustainable Management Information System integrated with the Monitoring and Evaluation system developed and tested including the collection, analysis, storage and application of data for planning purposes for LGs.
- Procedures, arrangements and model documents and guidelines that are fully demonstrated to be ready for replication in all local governments in the country.
- Scaled-up National LGDP approved by the Government.
B: STRATEGIC CONTEXT

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)

Document number: 16540 Date of latest CAS discussion: May 20, 1997

4. During the 1990s the Government of Uganda (GoU) has established a record of solid economic reform and sustained growth. GDP growth (at factor cost) has averaged 6.3% during President Museveni’s tenure and 7.2% over the past five years. Inflation has declined and the annual average inflation is in single digits. Economic policy has been disciplined and the impact on most performance indicators has been positive. The most important structural and institutional reforms include import, export and foreign exchange liberalization, tax administration, and civil service reform. Progress has been slower in the areas of privatization, public enterprise and financial sector reform. However, the Government has taken measures to address weaknesses in the banking sector, increase efficiency in the privatization process, and strengthen the financial monitoring of public enterprises. As a result of over a decade of macroeconomic stability, and because Uganda still remains in the lower tier of low income developing countries and carries a debt above sustainable levels, the country was the first to qualify as a recipient of the HIPC Initiative. The country is now moving into a phase of deepening the reform agenda, a key dimension of which is the decentralized system of governance aimed at better service delivery standards and coverage through efficient and effective utilization of public resources.

5. A primary goal of the CAS is substantial reduction of poverty in Uganda through rapid economic growth. Economic growth is to be achieved in part through improvement in the quality and reliability of basic public services which contribute towards industrial and commercial development. Given that under the Local Governments Act, 1997 Local Governments have a mandated responsibility to deliver basic services, the provision of efficient service delivery at the local government level is central to the achievement of the CAS goal. The CAS includes this project as part of its assistance strategy for supporting local capacity building and providing key infrastructure investments in the districts.

6. To help realize the sector-related CAS objective, LGDP will provide technical and financial resources to enable the development, testing and application of a range of participatory planning, budgeting and resource allocation procedures and program management systems in a sub-set of LGs. The intent is to empower LGs and communities to better manage economic and social development by devolving to them the authority and capacity to identify, deliver and sustain a locally determined investment program for public goods and services. This would help to ensure improved delivery of basic services to the civic society and, in the process, promote efficiency, effectiveness, transparency and accountability. Lessons learned from experience would contribute towards national policy formulation within a sound fiscal framework as to how best to operationalize the devolution of the development budget, over time, to all the districts.

2. Main sector issues and Government strategy:

7. It should be recognized at the outset that LGDP is cross-sectoral in nature given that it deals with the issue of decentralized service delivery and governance. Uganda’s national development strategy, contained in its Poverty Eradication Action Plan (1997), is designed to ensure that the benefits of development are widely spread. The Government is committed to the decentralization of planning, delivery and management of basic services and expansion of the role of the private sector as part of its strategy to stimulate economic growth and reduce poverty. Specifically, this includes:

- promoting labor-intensive macroeconomic growth;
- improving financial services;
- promoting increased private sector investment; and
- improving infrastructure service coverage and quality of utilities.
8. Active involvement and organization of communities are considered necessary for the implementation of this strategy. There is explicit inclusion of policies and actions to ensure good governance. This commitment is entrenched in various legislative documents, most significantly, the Constitution, 1995 and the Local Governments Act, 1997. The decentralization of the recurrent budget has been essentially completed. The Government now wishes to proceed quickly, to start the process of directing finances to service delivery functions, with the decentralization of the development budget based on the following key principles:

- Decisions related to investments in infrastructure services, that are the responsibility of the Local Governments, should be made by the local councils and benefiting communities and all key stakeholders;
- Selection, planning, implementation, and management of infrastructure investments should be based on an inclusive and participatory decision-making and a demand, and performance-driven process;
- Disbursement of funds for local service investments should be handled by district, sub-county, municipal and division councils, the corporate bodies in the local government system;
- Delivery of services should be provided by the private sector where this can be done more effectively and efficiently than by Local Governments or parastatals; and
- Central government agencies should play a regulatory, facilitation, mentoring, and monitoring role.

9. In this context, LGDP would operationalize the devolution of the development budget, in a limited way and as a part of the Government’s Public Investment Plan, in order to: (i) test whether the policies and principles of a decentralized mode of government are implementable and at what cost; (ii) evaluate the actual implementation experience; and (iii) make recommendations for the next phase operation to consider and develop a pragmatic transitional strategy for the full implementation of the program nationally. This would help to analyze whether there is a disconnect between reality on the ground as to how the principles of decentralization can be best implemented within the realities of capacity and resource constraints.

10. Within the context of the CAS, LGDP would help to ensure:

- Improved accessibility, equity and sustainability of services devolved to Local Governments under the Second Schedule\(^1\) (Parts 2–5) of the Local Governments Act, 1997 with Local Governments and beneficiary communities committed to meeting the operations and maintenance costs of the services;
- Socially, environmentally and technically competent local government planning, design and appraisal of investments resulting in more efficient and effective service delivery in association with competent Non-governmental Organizations (NGOs), private sector consultants and service producers under contract to Local Governments;
- Implementation of effective and efficient instruments for fiscal transfers from the Central Government, transparent procedures for access by Local Governments, and supervision by the Central Government to ensure performance against stated outputs and outcomes;
- Increased private sector and community participation in all aspects of infrastructure development/provision and services production with Local Governments committed to the separation of responsibility for management of services provision from responsibility for services production and clear separation of the roles and responsibilities between contractors, supervisors and clients; and

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\(^1\) The Second Schedule (Parts 2–5) of the Local Governments Act, 1997 includes the functions and services to be provided by Local Governments. For districts this includes the following sectors: education, health, water supply, roads and agriculture extension. For urban councils, apart from the sectors under the districts, the following are also included: street lighting, communal facilities, slaughter houses, markets, piers and jetties and solid waste management services.
11. LGDP would be financing, at its peak second year, about seven percent of the Government’s development budget. The basic procedures and institutional arrangements governing the transfer of responsibility for service provision and delivery to Local Governments were developed during the project preparation phase. In addition, lessons of experience from the District Development Project – Pilot (DDP-Pilot) financed by the UN Capital Development Fund (UNCDF) and UNDP which is currently being implemented in five districts were also incorporated into the LGDP project design as the DDP-Pilot has similar objectives. The procedures and institutional arrangements with respect to service delivery by the LGs will be refined, tested and cautiously expanded through LGDP and the replication process initiated. Based upon the findings and conclusions from the implementation experience in LGDP, either a full scaling up could be undertaken in the subsequent phase of the project potentially supported by IDA and other donors, or it could be concluded that implementing decentralization is probably too complex given the capacity constraints that obtain in the country and therefore operating in a fully decentralized mode may have to be phased in gradually over time, either geographically or sectorally. Another scenario could indicate that Local Governments in general are more adept at managing services in certain sectors than others and they could be given resources for those services they deliver well. For the other services, where their performance is not as good, intensive capacity building efforts would be required as also strict supervision from the center during sub-project implementation to bring them up to the required levels of efficiency. In any event, it should be reiterated that operating in a decentralized governance mode as per the provisions of the Act still remains largely untested, LGDP will go in simply to test the systems and ascertain their implementability before any conclusions can be arrived at in terms of the future of decentralization implementation without pre-judging the conclusions or the exact nature of any transitional plan, if necessary.

12. While LGDP is designed as a demand-driven project, its implementation will be carried out in the context of hard budget constraints, transparent eligibility and access criteria for participating in the project, aimed at achieving improved service delivery standards. Thus, LGDP will provide a framework which balances the demand for services within the realities of resource and capacity constraints.

3. Sector issues to be addressed by the project and strategic choices:

13. The primary development issue to be addressed by the project is institutional i.e., how to build the capacity of key players at all levels—central government agencies that need to support and mentor the newly empowered Local Governments, the Local Governments themselves as they assume new responsibilities that they are expected to meet effectively, and the public as citizens gradually become accustomed to holding their Local Governments genuinely accountable for their service needs.

(i) Capacity Building of Key Central Government Agencies: The Ministry of Finance, Planning and Economic Development (MoFPED), Ministry of Local Government and the Local Government Finance Commission are the primary central government agencies responsible for operationalizing the various financial and operational aspects of decentralization of the development budget. The proposed IDA financed Second Economic and Financial Management Project (EFMP II) will provide support to MoFPED. LGDP will support MoLG and the LGFC Secretariat. With respect to the MoLG, LGDP will provide training to MoLG staff in four critical areas: mentoring, compliance supervision, monitoring, and advocacy of for Local Governments. LGDP support to the LGFC would aim to strengthen the analytical capacity of the Commission’s Secretariat and thus enable it to advise on the distribution of revenue between the Central Government and Local Governments; on the amounts to be allocated as conditional, unconditional and equalization grants and their allocation to each Local Government; on the potential sources of revenue for Local Governments; and, Local Governments on appropriate tax levels to be levied by Local Governments. Capacity-building initiatives in this regard would be coordinated with existing and proposed donor support to these two institutions.
(ii) **Capacity Building in the Local Governments:** In the case of LGs, the capacity building activities will include strengthening the program and financial management capacity of those LGs that will be receiving conditional development funds under the project to enable them to effectively and efficiently utilize these resources for improved service delivery. These capacity-building efforts will be coordinated with the IDA-financed Institutional Capacity Building Project (ICBP), the proposed Second Economic and Financial Management Project, the District Development Project – Pilot financed by the UNCDF and UNDP, DANIDA assistance in selected districts, DFID efforts, as well as the activities of other donors. The experience base from these initiatives are included in the design of LGDP. In this regard, it should also be noted that a key design feature of LGDP will be the annual assessment of LGs to determine whether they meet the minimum requirements in the areas of financial management, planning, engineering and human resources in order to qualify for capital investment resources under the local development grant element of the project. This exercise will assist not only to identify capacity gaps (and, therefore, the delivery of demand-driven capacity improvement programs) within the LGs but also determine performance progressively.

14. **Participatory Planning, Allocation and Investment Procedures:** A second key development issue that the project would support would be the implementation of participatory planning, allocation and investment procedures for the use of development funds for devolved functions, responsibilities and services by Local Governments (i.e. all sectors under the Second Schedule, Parts 2–5, of the Local Governments Act, 1997). However, these investments must be included in: (i) a high order of a resource constrained “Budget Framework Paper”; and (ii) a more detailed local government development plan and approved by the local government council as required by law. In this context, LGDP would also seek to develop an open active public participation process to ensure that investment allocation decisions are arrived at in a participatory, transparent and accountable manner. The implementation will draw on the procedures and experiences of the preparation phase of LGDP and from the UNCDF’s DDP-Pilot.

C: **PROJECT DESCRIPTION SUMMARY**

15. Several principles underlie LGDP, and these principles will guide both the design and implementation of the project.

- The first is that the project must proceed in a fiscally prudent way that is consistent with the resources available to the Government, and that will not undermine broader macro-economic objectives.

- Second, decentralization is recognized as complex and slow and while it is being implemented, an expensive and a demand-driven technical assistance-intensive process must accompany it. Accordingly, the four components of LGDP should be seen as first steps in a much longer program of assistance which could involve a series of assistance programs over the next 10–20 years.

- A third principle which has guided the development of this project is that the nature of LGDP is experimental—it is meant to test a number of key aspects of the institutional structure and financial systems already mandated under the Constitution and the Local Governments Act, 1997 to decentralize various government functions. Thus far, the government has only decentralized the recurrent budget, and this has been done without creating the conditions that would allow Local Governments to manage it effectively (it has, for example, developed detailed local financial management procedures, but not fully implemented them); how to improve this system is one challenge, how to implement the decentralization of the development budget is the next.

- Finally, built into each of the components is the central principle that the capacity of government to better manage economic and social development must be expanded and improved at all levels of government.
1. **Project components** (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

<table>
<thead>
<tr>
<th>Component</th>
<th>Sector</th>
<th>Indicative Costs (US$M)*</th>
<th>% of Total</th>
<th>Bank-financing (US$M)</th>
<th>% of Bank-financing</th>
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<tr>
<td><strong>Component 1:</strong> Operationalizing the Roles of the Ministry of Local Government and the Local Government Finance Commission’s Secretariat under Decentralized Governance</td>
<td>BD – Decentralization</td>
<td>9.5</td>
<td>10</td>
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<td><strong>Component 2:</strong> Local Governments Development Fund</td>
<td>BD – Decentralization MM – Multi-sector UY – Other Urban Development</td>
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<td>89.9**</td>
<td>100</td>
<td>80.9</td>
<td>90</td>
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* Includes contingencies of 25 percent (where applicable) and taxes of 17 percent (not inclusive of the PPF Refund). Taxes of 17% for Component 2 will be provided separately by the Local Governments and are therefore not included here.

** Excluding taxes and duties.

16. The project comprises four components. Each component should be seen as an experimental tool designed to test the viability of various approaches in the Government’s effort to decentralize functions and responsibilities for the provision of basic public services. These components include:

- **Component 1:** Supporting and operationalizing the roles of the Ministry of Local Government and the Local Government Finance Commission Secretariat under the Government's decentralization policy.
- **Component 2:** Financing basic service delivery investments through local development grants and capacity building activities through capacity building grants from the Central Government to the Local Governments.
- **Component 3:** Providing support to the Kampala City Council for testing alternative basic service delivery mechanisms.
- **Component 4:** Supporting program management, monitoring and evaluation and future program formulation.
17. **Component 1: Supporting and Operationalizing the Roles of the MoLG and the LGFC under the Government's Decentralization Policy**, is intended to provide a range of technical assistance to the MoLG and LGFC Secretariat to build their capacity as they begin to develop and enhance policy making capacity, to establish an appropriate structure and a set of practical procedures to perform their mandated roles as the implementing agencies in the devolution of the development budget and decentralization of delivery of basic public services. LGDP will link closely with other initiatives already underway such as the EFMP II in order to operationalize the Central Government's role under decentralization. Component 1 will have the following two sub-components:

A. Operationalizing MoLG’s role under decentralization; and
B. Operationalizing the LGFC secretariat’s role under decentralization.

#### A. Operationalizing MoLG’s role under decentralization:

This sub-component will support the following six activities:

(i) **Capacity building of MoLG staff and retooling of its facilities:** Under this item the constraints being faced by the MoLG and currently limiting its capability to perform its mandated functions under decentralized governance will be addressed.

(ii) **Mentoring of Local Governments:** Under this item, MoLG will mentor Local Governments in the fields which are considered crucial for improved performances of Local Governments. Those fields which have either no guides/manuals or where the existing ones are in variance with the provisions of the Constitution and the Local Governments Act, 1997 will be addressed first.

(iii) **Compliance supervision:** This will involve the development of a Local Governments Inspection Manual which will include Local Governments performance indicators. It will also include routine inspection and supervision. The Manual will also contain standard sets of indicators, inspection procedures and formats for reporting inspection results as a measure to ensure inspection by MoLG is carried out in a consistent and systematic manner.

(iv) **Monitoring and Evaluation:** This will involve the monitoring of the performances of Local Governments by MoLG. A draft M&E manual including an M&E checklist and scoring system will be developed and produced. Training will be provided to the Districts and Municipal LGs to internalize and operationalize the manual. In this context it should be noted that compliance verification and M&E functions are a logical extension of the “pre-qualification” of local governments for participation. Thus, there is a consistent “quality control” dimension of the project from inception throughout its life, and this dimension will be institutionalized into the government system.

(v) **Advocacy of/for Local Governments,** including inputs to support a proactive role by the Local Authorities Association of Uganda and the Urban Authorities Association of Uganda. This will include: amending the Property Rates decree, 1979 and the Town and Country Planning Act; coordinating, through net working between center-center, center-local, and local-local agencies in areas of donor support to Local Governments, technical support to Local Governments by line ministries, and policy consultation with Local Governments; and coordinating the development of national service delivery standards of Local Governments by line ministries.

(vi) **Information Communication System to allow timely and effective decision adjustments:** An information communication system is required to enable all stakeholders to access accurate and reliable data and/or information easily and quickly. This will involve the establishment of a computerized database at the MoLG Resource Center and providing computers at the District and Municipal Local Government levels, which will be linked to the MoLG database. Information from lower level Local Governments is to be collected by the higher level Local Governments and remitted to MoLG for easy...
storage and retrieval. It should be noted here that many agencies, not just MoLG, will be involved in the collection of data on local government status and activities. MoLG may end up being the repository and/or coordinator of a local government information system, but it will not be the only contributor or the only user.

**B. Operationalizing the LGFC secretariat's role under decentralization:** The Local Government Finance Commission is gradually assuming the critical role assigned to it by the Constitution, 1995 and the Local Governments Act, 1997. LGFC has completed a staffing plan and made an assessment of space and equipment requirements. LGFC is also in the process of establishing an advisory panel to help prioritize its activities. The full set of LGFC activities supported by the project will evolve as this advisory panel helps LGFC to finalize its work plan and as the scope and volume of support for LGFC from other donors and international agencies is clarified. However, a number of LGFC activities and studies have already been identified as priorities and will be supported under the project. LGDP will also provide resources to help equip the LGFC and to train its staff. In the meantime, therefore, the project will support the following:

(i) **Local Government Tax Study** and establishment and operationalizing monitoring and evaluation of the local government revenue system: The Commission with inputs from consultants will conduct a major revenue enhancement study with three components. The first will review the present legal framework with particular reference to property tax and GPT, the second will advise on the institutionalization of local government revenue collection and the third will establish a monitoring and evaluation system of local revenue within the Commission. The three components of the study will involve collection of data, production of reports and review by stakeholders both at the technical and political levels.

(ii) **Training of LGFC Staff:** To build the capacity of the Commission in order to perform its roles, a number of its staff will be trained through short-term courses both in the country and abroad.

(iii) **Additional Office Space and Retooling:** The Commission has completed its staffing plan. This has created additional demands for office space and equipment for the Commission which will be provided.

18. **Component 2: Financing basic service delivery investments and capacity building activities through grants from the Central Government to the Local Governments.** Financing from this component will be extended under LGDP as development block grants from the Central Government to Local Governments for provision of their mandated services as prescribed under the Second Schedule (Parts 2–5) of the Local Governments Act, 1997. This financing will be provided through the Government's current budgetary system of inter-governmental fiscal transfers. IDA funds will be made available to the Ministry of Finance, Planning and Economic Development which will then direct these to the Local Governments under a system of performance monitoring and certification by the MoLG (see para 20 for details). This component will help define, test and refine the proposed demand-driven processes of planning, delivery and management of infrastructure and other public services at the various levels of local government—district, sub county, municipal, division, and town councils and parishes. The component will also test various approaches through which national policy on private sector tendering and contracting can be reviewed and refined.

19. **Two investment vehicles are available to Local Governments under Component 2, namely:**

   (a) **Local Development Grant (LDG)** to finance physical investments under the Second Schedule (Parts 2–5) of the Local Governments Act, 1997; and the
   (b) **Capacity Building Grant (CBG)** to finance capacity building activities in the Local Governments.

   (a) **Local Development Grant:** Resources for physical investments will be provided under the project as development block grants from the Central Government to Local Governments for provision of their mandated services as prescribed under the Second Schedule (Parts 2–5) of the Local Governments Act,
1997. However, a limitation will be placed on the scale of individual investments in water supply, given that larger water sector strategy issues are yet to be agreed upon between the Government and IDA. Therefore, large water supply investments will not be eligible for financing (see Annex 2, Section B for details). All tiers of Local Governments are eligible for accessing the resources under this component. However, access to these funds will be limited to only those LGs, which have met a set of minimum institutional, financial and operational requirements. The minimum requirements are largely drawn from the provisions of the Local Governments Act, 1997 and the Local Governments Financial and Accounting Regulations, 1998. Special attention will be given to tendering and contracting procedures whereby the capacity of local contractors and suppliers will be enhanced during the implementation of LGDP. As an exception, the development financing requirements of Kampala City Council (including its five Divisions), currently the most economically significant Local Government in the country, will be catered for separately under Component 3. KCC will, therefore, be eligible only for investments at the parish level, from the LDG over the project period.

(b) Capacity Building Grant: Resources for capacity building activities will be provided to Local Governments on a demand-driven basis to enable them to meet their statutory roles and responsibilities. LGs, through their annual planning and budgeting cycles, will identify capacity gaps and map out strategies for addressing the gaps. The strategies will be in the form of specific and budgeted activities/schedules against which the CBG will be triggered. The CBG will, therefore, enable those LGs which did not qualify for the LDG in the first year of the project to build up their capacity and attain the minimum standards required to access the LDG in the subsequent years.

20. **Funds Flow and Disbursement Mechanism for Component 2:** IDA funds for this component will be directed through the Government’s budgetary system and will finance specific elements of the development budget. The IDA funds for supporting the budget process through the advance funding for expenditures under this component will be released in three annual tranches to the Bank of Uganda in a foreign currency deposit account. The equivalent local currency will then be made available to the Uganda Consolidated Fund from which quarterly releases will be effected to finance locally prioritized investments for a set of qualified districts and capacity building activities to all eligible districts. In order to qualify for access to investment funds, districts have to meet minimum access criteria concerning evidence of adequate planning, financial management (including auditing) and implementation capacity (contract administration). Annual assessments are drawn up by the Ministry of Local Government to determine the list of districts that qualify for investment funding in a given fiscal year. Quarterly releases will continue to be made and the district performance will be monitored on a continuous basis against agreed and legally binding performance agreements between the Central Government and the districts. Annual IDA funding of this advance-funded expenditure component will be based on certification from the Government that the qualified districts are in compliance with the access criteria and performance agreements. These assessments will be included in an annual financial performance assessment report and a report of the status of audits of the Local Governments. Conditions for disbursements from the consolidated fund to the districts are included in Development Credit Agreement as legal covenants.

21. **Component 3: Providing support to the Kampala City Council for testing alternative basic service delivery mechanisms. First Urban Project:** A brief history of the IDA-financed First Urban Project (Credit 2206-UG) is warranted with regard to explaining the rationale behind this component. The First Urban Project was begun in 1991. During the October 1993 project mid-term review, the Government and IDA agreed that KCC should concentrate on actions to rebuild its institutional capacity and develop and implement a plan of action to improve KCC's finances and operations. A restructured project along these lines was agreed to in April 1994. However, given the slow pace of progress in achieving the targets put forth in the restructured project, around November 1996, a proposal was made to restructure and reorganize the KCC and have it implement a program of “Strategic Framework for Reform” (SFR). It was also recognized that fundamental changes in the way KCC is managed and run needed to be made in the context of the overall policy of decentralization in the country whereby financial resources and functions were being devolved to
lower levels of government to ensure more efficient and effective delivery of basic services. Though IDA provided input on the guiding principles of the SFR, the program itself was developed in-house in the KCC with full buy-in from all the relevant stakeholders in the organization including the Council, the management of KCC and the labor union. The main elements of the SFR are:

- rightsizing of KCC’s staff base to retain just core staff for functional responsibilities associated with moving from the traditional department-based organization to a service-based cost-center structure;
- contracting out selected functions (both service delivery and management); and
- improving financial management practices.

22. **Progress under the SFR Program Initiated through the First Urban Project:** Appreciable progress has been made since the inception of the SFR in January 1997. KCC has undertaken some fundamental policy reforms which include: (i) Private sector involvement in the provision of basic services through contracting out various service delivery functions. This has resulted in reducing KCC’s overhead expenditures and improved service delivery standards. (ii) Organizational restructuring with a view to rationalizing the structure of KCC through reductions in the workforce which has already resulted in wage bills in FY1998/99 reduced by half of what they were in FY1996/97. KCC has also instituted a Core Team to act as a management tool in monitoring and implementing the SFR. (iii) Various initiatives to ensure sound financial management practices and accountability such as introduction of cost center budgeting, preparation of realistic budgets, introduction of more rigorous internal financial regulations and procedures and strengthening of the Internal Audit unit are underway. (iv) A detailed review to update the legal framework is underway. (v) Divestiture of unproductive assets such as old vehicles, plant and equipment has happened—these assets have been sold off by tender. (vi) KCC has also instituted a policy of stakeholder involvement in the decision making process for some of its recent special projects such as the Kyaggwe Road Corridor Traffic Improvement Project financed under the First Urban Project, consultation with private refuse collectors on the Bill for the Solid Waste Management Ordinance, contracting out of landfill operations, conducting a social impact assessment for the Nakivubo Channel Rehabilitation Project and intensive stakeholder participation through its five divisions for the formulation of a Kampala City Development Strategy.

23. **Content of Component 3:** As has been stated above, one of the key elements of the SFR is contracting out of KCC’s key functions in both service delivery and management in order to achieve optimum levels of service delivery both with respect to better quality of services and higher coverage. Component 3, under the proposed LGDP, would therefore further support KCC’s initiatives in this regard by providing resources to:

(i) Test alternative basic service delivery mechanisms which include:
(a) contracting out of basic service delivery functions such as minor (routine) works in the Divisions; and
(b) financing and management of key prioritized requirements such as improvements and extensions to the Mpererwe landfill site; providing financing for the management and operations of the landfill site; and financing the contracting out of refuse collection and transportation to address in part the critical issue of solid waste management in the city; and rehabilitation and maintenance of tertiary, secondary and primary anti-malarial drains outside the Central Business District (CBD) area;

(ii) Institute measures to improve KCC’s:
(a) program and financial management performance, and
(b) enhance its revenue mobilization efforts/performance; and

(iii) Provide:
(a) technical assistance in areas such as engineering, financial management, management information systems and organizational reforms; and
(b) support institutional development and capacity building.
24. **Component 4: Supporting program management, monitoring and evaluation and future program formulation.** Given that LGDP is a pilot initiative, there is need to carefully monitor its implementation and capture both successes and shortcomings. Component 4 will provide for careful monitoring of progress of the decentralization activities undertaken, which should result in an understanding of what works and what does not. Such knowledge is critical if the project is to move from simpler reforms to more complex ones, and if successes from pilot efforts are to be “scaled-up” and applied to an expanded number of Local Governments. A mid-term review of the project will be conducted in order to determine the way forward in terms of whether to scale up or not based upon evidence from experience on the ground. The three main activities envisaged under this component are:

(i) **Program Management:** LGDP will provide financing towards office and administrative expenses for the Program Management Unit (PMU) in the MoLG which will be responsible for the day-to-day management of the implementation activities. LGDP will also provide resources to augment the MoLG’s capacity by means of short-term consultancy input as and when necessary especially for specialized tasks particularly in reconciling various government policy documents. In addition to providing management and administrative input, the PMU will be responsible for refining the procedures for implementation and, where necessary, developing and testing new procedures for implementation especially with regard to Component 2, the Local Government Development Grant.

(ii) **Monitoring and Evaluation:** LGDP will test and refine the procedures for allocation of resources to Local Governments for improvement of basic service delivery functions. Monitoring and Evaluation (M&E) activities will be undertaken by the various levels of Local Governments (e.g., Districts, Municipalities, Sub-counties, Divisions) appropriate to a particular investment or sub-project. Overall M&E would be consolidated by an MoLG team. The establishment and implementation of a comprehensive M&E system for the project will be essential to ensure that the lessons from LGDP are captured and utilized either for the design of a scaled up national program, if the decision is made to proceed in this manner or making alternative choices in terms of how decentralization should be implemented or whether the capacity exists to implement the statutory obligations of decentralization within the various levels of government. The UNCDF DDP-Pilot M&E system has already been adapted for the purposes of M&E in LGDP and an M&E framework has been developed. The lessons to be learned are multifaceted and will encompass such questions as whether:

- the fundamental engineering and technical design parameters are appropriate and sustainable;
- the implementation procedures adopted are functioning in an efficient and effective manner;
- the investments are being implemented in a timely and cost-effective manner to acceptable standards and are functioning in a demand-responsive way; and
- the project is contributing to the achievement of the national development goals of the Government, in particular, economic growth and poverty reduction.

One of the key elements of the M&E system is the annual audit of the accounts of the Local Governments by the Office of the Auditor General for which a budgetary provision has been made under this sub-component.

(iii) **Future Program Formulation:** Based upon the implementation experience of LGDP and the UNCDF DDP-Pilot, if the decision is made to proceed to scale up these operations at the national level then resources available under this sub-component of LGDP could be used for the preparation of the future national level program. It is anticipated that the preparation of the documentation for the national program will start after a mid-term review of the project in the end of the second year (November 2001). Lessons emanating from the review will be used to design the national program.
2. Key policy and institutional reforms supported by the project:

25. Lessons generated from the implementation of LGDP will contribute to the refinement and reconciliation of various national legislation on the procedures for devolving the development budget and implementation of a decentralized mode of governance. The primary institutional reforms supported by LGDP include: (i) strengthening the participatory process in the context of testing the implementation of decentralization; (ii) tendering and contracting to the private sector; and (iii) developing options for improving the revenue and financial performance of LGs.

3. Benefits and target population:

26. The project will benefit several levels of target groups:

- The Community level, including “Service Consumers” (communities benefiting directly from community investment projects), and “Service Producers” (small private contractors, NGOs and CBOs whose capacity for service delivery will get enhanced through privatizing and contracting out of services).

- Local Governments at the district, sub county, municipal, division, and town council levels, which are mandated to provide certain basic services to the communities under the jurisdiction of the respective councils.

- Business enterprises and private sector agencies who will benefit through private-public participation where resources will be provided to urban councils to prepare viable project profiles for attracting private sector resources and skills for implementation of these projects.

27. The benefits of the project, aimed at building credibility of Local Governments through improved accountability, transparency, efficiency and improved service delivery can be categorized under the following main areas:

(i) Participatory Planning, Allocation and Investment Management by defining the most appropriate and effective relation between community and local government in investment planning and provision; and by refining, in the context of recent legislation, operational relations between central ministries and Local Governments.

(ii) Capacity Building at the: (a) Community Level through empowering communities to take greater responsibility for determining investment priorities, monitoring the implementation process, demanding greater accountability and transparency from their representatives in the Local Governments, as well as constructing and maintaining selected levels of infrastructure. In addition, communities will be assisted to interpret their relationships with various stakeholders (the LGs, NGOs, etc.) in order to harness these to their advantage. (b) Local Government Level including elected councilors, and staff of district, municipal and lower level councils to manage a performance-based system governing the allocation of development funds. (c) Central Ministries (e.g., MoLG), in particular, for determining the most appropriate mechanisms for administering inter-governmental fiscal transfers of development funds and, defining a new “monitoring and mentoring” role of central government according to an agreed planning, allocation and investment management system regarding use of public financial resources.

(iii) Attracting the Private Sector for production of basic infrastructure and provision of services. This includes both direct financial contributions and, through various contracting arrangements between Local Governments and the private sector, increased private sector involvement in service provision and maintenance.
(iv) Increased Private Sector Investment in industrial and commercial activities as a result of improved local government services.

(v) Reduction of Poverty as living conditions of the beneficiary communities are improved as a result of enhanced delivery, accessibility and sustainability of services.

4. Institutional and implementation arrangements:

28. The overall project implementation period is 4 years. The institutional and implementation arrangements for the four components of the project will be as follows:

(i) The Ministry of Finance, Planning and Economic Development is currently responsible for coordinating all development plans at the national level. This function is, however, envisaged to change if the Constitutional provision for parliament to create a National Planning Authority is effected. District/municipal councils are required to develop three-year rolling development plans incorporating investment plans from lower LGs. In the absence of the National Planning Authority, the MoFPED is expected to receive development plans from the districts/municipalities and incorporate them in the overall national development plans. However, given the various stages at which Local Governments currently are in terms of the quality of their development plans, MoFPED will focus its attention more on ensuring that the Local Government Budget Framework Papers are realistic and prepared in time as they will be fed into the National Budget by MoFPED. In this context, MoFPED’s role in the planning process of LGDP is an important one.

(ii) (a) Ministry of Local Government: The respective roles and responsibilities of the Central Government and Local Governments are defined under the Constitution 1995 and the Local Governments Act, 1997. While the Local Governments in Uganda are autonomous corporate entities in the context of the country’s decentralization program, the Central Government, through the Ministry of Local Government, exercises broad oversight on the performance of all Local Governments. The MoLG will, therefore, be the executing ministry for LGDP and also the agency responsible for implementing most of Component 1 and Component 4. MoLG will manage the project by coordinating the activities across the various components and evaluating Local Governments performance with respect to project implementation. The primary role of the MoLG is inspection, monitoring and coordination of LGs (Section 97 – 101 of the LGs Act, 1997). In addition to the above-referred statutory mandate the MoLG as the executing ministry of the project will be responsible for effecting and publishing the transfers to ensure transparency and accountability. MoLG will also, where necessary, offer training and technical advice to Local Governments, do compliance verification, and mentor those Local Governments which have qualified for access to funds under Components 2 and 3 to enhance and improve on their performances. This will be done through counseling, on the job training, technical support/advice and guidance to Local Governments. The MoLG will also monitor and evaluate the performances of Local Governments to ensure compliance with national policies, regulations, standards, procedures, and adherence to guidelines. Areas which requires compliance supervision of Local Governments by MoLG are in tendering/contracting; recruitment; schemes of service; design specifications; statutory requirements (such as final accounts, balanced budget, LG Development Plans); sharing of revenue between Local Governments and preparation of quarterly reports. Local Governments, which would fail to comply with such performance measures, will be subject to sanctions.

(b) MoLG through its Program Management Unit shall manage the project by coordinating the activities of all other component managers. The IDA Credit for Components 1, 3 and 4 will initially be disbursed under IDA’s traditional methods. Upon completion of certain actions outlined in the Action Plan in the Program Implementation Plan for MoLG and KCC, these components will qualify for disbursements under the new disbursement method i.e., the Loan Administrative Change Initiative (LACI). This initiative integrates project accounting, procurement, contract management, disbursement and audit with physical progress through the Project Management Report (PMR). Disbursements will be on a quarterly basis, based on satisfactory
implementation progress as reported in the PMR. The PMU shall maintain a strong financial management system capable of producing these reports, monitoring the implementation of the project and producing the reports under LACI.

(e) The IDA Credit to finance activities under Component 2 of the project will be disbursed in three tranches directly from the Credit to a Deposit Account in the Bank of Uganda. The initial release will be made upon the submission of workplans and cashflow forecasts for the first six months and subsequent releases will be made following a report on financial performance assessments carried out by MoLG and reports of satisfactory audit status of the Local Governments (see section G.2.(iii) for details).

(iii) The LGFC is a body created by the Constitution. Its mandate is prescribed under Article 194 of the Constitution, 1995 and Section 77 of the LGs Act, 1997. To realize its statutory responsibilities the LGFC will be responsible for the implementation of sub-component B of Component I of the project which deals with institutional strengthening of the LGFC for it to deliver on its mandate.

(iv) The Local Governments will be responsible for implementing Component 2 of the project. The participating LGs will have the following responsibilities:

(a) Meeting the entire set of minimum conditions before the Local Development Grant is disbursed.
(b) Utilizing the Local Development Grant funds for provision of services falling under the Second Schedule (Parts 2-5) of the Local Governments Act, 1997.
(c) Ensuring that only those projects, which are contained in the three year Rolling Development Plan, budgeted for and approved by the Council, are financed by the Local Development Grant under the project.
(d) Ensuring that investment-servicing costs do not exceed 15% of the total amount of Local Development Grant for that year.
(e) Quarterly accountability to PMU for funds transferred clearly indicating the sector, type of investment in the sector and the amount of money spent.
(f) Keeping all supporting documents regarding disbursement and utilization of financial resources at source, which shall be produced on demand for audit purposes.
(g) The District/Municipal LGs will undertake necessary capacity building and mentoring activities for lower level LGs in their jurisdictions.
(h) Opening of a Project account for the implementation of the project at the LG.
(i) Transfer of the 10% co-financing of the first quarter into the LG project account by the beginning of a given financial year and the balance for the last three quarters of the financial year fully transferred by the fourth quarter of the financial year.
(j) The District/Municipal LGs will integrate lower level Council plans into their plans as required by the LGs Act, 1997.
(k) Ensuring the overall monitoring and evaluation of projects being implemented under its jurisdiction and quarterly progress reports submitted to PMU.
(l) Ensuring that all the Technical Departments and relevant Council Technical Committees are in place and functional.
(m) Taking responsibility for the implementation, supervision and certification of LGs projects through the District Technical Departments, relevant Council committees, contractors and/or NGOs.
(n) Ensuring that payments to contractors engaged by the LGs are effected as per contract agreements.

(v) Kampala City Council, under a separate Project Agreement, will be responsible for implementing Component 3 of the project and managing the implementation of the parish level investments in Kampala under Component 2. KCC has established a Core Team within its organizational structure which consists of a group of professionals selected by KCC from its own staff, under contractual terms, to carry out management

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2 A Rolling plan would allow Districts to update their plans on an annual basis.
functions for the implementation of its reform program initiated under the Strategic Framework for Reform and execute its special projects such as the IDA-financed First Urban Project, the Nakivubo Channel Rehabilitation Project and Component 3 and the parish level investments for Kampala under Component 2 of LGDP under the overall management of the Town Clerk. The specific responsibilities and functions of the Core Team will be: (a) overall project management; (b) planning, budgeting, and quality assurance of works and services; (c) initiate and take a lead role in institutional reforms; (d) procurement management and contract administration; (e) project accounting, financial management and control; (f) general administration and facilities management; and (g) monitoring and evaluation.

29. The roles and responsibilities of other institutions involved in LGDP are as follows:

(a) The Public Service Reform (PSR) II 2002 Coordinating Committee is a national committee for coordinating reforms. It is chaired by the Vice President, and attended by the Permanent Secretaries of the Ministries of Education, Public Service, Justice and Constitutional Affairs, Finance, Planning and Economic Development, and Local Government. The committee’s mandate is to coordinate the implementation of reform programs nationally. It shall therefore coordinate the implementation of LGDP with those other national programs such as the EMFP II and the Public Service Reform Program. The PSR 2002 Committee would also provide the forum for ensuring consistency and coordination among other sectoral line ministries in the context of decentralization.

(b) Policy Steering Committee (PSC): The PSC would provide policy and strategic guidance for the implementation of the project to the LGDP executing ministry i.e., Ministry of Local Government. The outcome of the quarterly PSC meetings would be presented to the relevant project component managers through the Program Technical Committee for implementation. The PSC would consist of the Permanent Secretaries of the Ministries of Local Government, Finance, Planning and Economic Development, and Gender, Labor and Social Development.

(c) Program Technical Committee (PTC): The PTC's main responsibility would be to coordinate technical implementation issues of the project and forward policy issues to the PSC for advice. The PTC would also liaise with the Donor Sub-group on Decentralization and provide it with regular updates on project implementation. The PTC would meet once every quarter. It would have the following composition based on stakeholder representation: Director, MoLG (Chairperson); Director, MoFPED (Co-Chairperson); Coordinator, PMU (Secretary); a representative from MoLG; a representative from MoFPED; a representative from Ministry of Gender, Labor and Social Development; a representative from LGFC; a representative from the Uganda Local Authorities Association; a representative from the Uganda Urban Authorities Association; a representative from the NGO forum; a representative from the private contractors; and any other person invited by the PTC.

D: PROJECT RATIONALE

1. Project alternatives considered and reasons for rejection:

30. LGDP is in itself “experimental” in nature as one of the key project objectives is to test implementation realities of various provisions of the existing legislation on decentralization. The design of the project reflects the demand-driven approach that is articulated in the legislation.

31. The project formulation and implementation approach, therefore, is different from the traditional approach. It has not been designed from a sectoral investment point of view since such an approach would undermine one of the key decentralization policy objectives of a bottom-up (local level) demand-driven investment priority setting. LGDP has been designed as a development conditional grant to support development budgets of Local Governments which will allow these Local Governments to exercise their discretionary powers to plan and allocate development resources based on the needs of their respective
constituencies but within the parameter of the law; hence the Second Schedule of the Local Governments Act, 1997 will constitute the investment bracket for LGs. Given the bottom-up approach that LGDP has to follow, the exact investment compositions cannot be determined a priori. However, the investments will have to be determined based on hard budget constraints and clear output and outcome targets. Local Governments have to buy into LGDP by meeting some minimum requirements which have been largely drawn from statutory provisions.

32. The participatory and consultative process will be maintained throughout project implementation. It is expected that this approach will ensure sustainability since the stakeholders will identify themselves with the project and own the process. LGDP will thus depart from the supply-driven mode of implementation to a demand-driven negotiated approach to service delivery. Local Government development/investment plans will form the basis for allocations/investments. As a requirement these would have to reflect lower level needs and a universality of the needs of “Marginalized Groups” such as the youth, persons with disabilities, and women, etc. To ensure ownership, the beneficiaries would be required to contribute at least 10 percent of the total capital investment cost and thereafter be responsible for the operation and maintenance of the investments. Past supply-driven projects, where little consultation has been carried out with beneficiaries, have proven, by and large, not to be sustainable.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

33. LGDP will complement and deepen initiatives already underway, particularly by the Ministry of Local Government and the Ministry of Finance, Planning and Economic Development to define the practical implications of decentralization. New planning guidelines have been developed for the preparation of district plans, and these are to be linked with appropriate planning procedures for investment identification, planning and appraisal at lower levels.

34. IDA is already supporting participatory planning in the health, education and agriculture sectors and this is assisting the Government to redefine the roles traditionally played by the relevant central line ministries. This includes, for instance, redefinition of the implications of the statutory requirement for integrated planning and relations between Local Governments and the future National Planning Authority. Similarly, support will be extended to the offices of the Inspector General of Government and Auditor General in upgrading the Central Government’s capacity to fulfill responsibilities in the field of fiscal management and accountability. Other national programs, such as the ICBP which deals with capacity building in Local Governments and the proposed EFMP II on expenditure management reform will provide the context for the essential policy, financial, planning, accountability and transparency context for LGDP. Under the local government component of ICBP, a number of tools and manuals have been developed towards strengthening planning, budgeting and accounting capacity of the LGs. LGDP would take into account the lessons learned from the implementation of the LG component of ICBP, with a view towards utilizing the relevant tools and approaches for capacity building in the LGs. With respect to EFMP II, LGDP would rely heavily on the planning, accounting and budgeting systems which would be developed and implemented under EFMP II to ensure transparency and accountability in the use of development funds under LGDP.

35. During 1995, the Government reached agreement with IDA and the UNCDF about the design and testing of instruments for devolution of development budgets to Local Governments. GoU indicated that it would seek an IDA credit to finance nation-wide devolution of development resources to Local Governments. However, ahead of this, it was agreed that UNCDF would assist GoU to design and implement a pilot District Development Project to test alternate systems for allocation, planning and management of investment funds by Local Governments. It was agreed that the DDP Pilot would be implemented in four districts (Mukono, Jinja, Arua and Kabale – with Kotido being added subsequently) reflecting the range of institutional capacities, socio-economic and environmental circumstances of Local Governments across the country. The DDP-Pilot, which commenced in November 1997, financed by UNDP and UNCDF (approximately
US$15 million over three years), was to serve as the template for the design of LGDP. Together with the DDP-Pilot, UNDP has provided important complementary assistance through the Sub-Program on Decentralized Governance, also implemented by MoLG, focusing on local government planning and data management.

36. Since completion of the DDP-Pilot formulation in June 1997, LGDP has incorporated all the main features of the DDP-Pilot Planning, Allocation and Investment Management System (PAIMS) developed to articulate the policy and statutory framework of decentralization into practical procedures for devolved service provision. With almost two fiscal cycles of DDP-Pilot implementation, the GoU, UNCDF and IDA have field tested all major design parameters of LGDP. Of particular note are the procedures for allocation, fiscal sharing and co-financing; the approach taken to promote Local Government compliance with regulations and encourage better performance by Local Governments; the creation of a demand-driven mechanism for financing capacity building activities; and the overall framework for M&E and integration of performance evaluation into the fiscal allocation process.

37. Whilst these are all innovative features of the LGDP, their prior definition and testing under the DDP in five Districts and more than 100 Sub-county Local Governments means that IDA can more confidently extend a line of credit to upscale to 30 Districts and 13 Municipalities.

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<th>Sector Issue</th>
<th>Project</th>
<th>Latest Supervision (PSR) Ratings (Bank-financed projects only)</th>
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<td>Bank-financed</td>
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<td>Implementation Progress (IP) Development Objective (DO)</td>
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<td>Restoration of key infrastructure services</td>
<td>First Urban Project (Credit 2206-UG)</td>
<td>S</td>
</tr>
<tr>
<td>Improvement of service delivery standards</td>
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<tr>
<td>Institutional strengthening of Kampala City Council to support the development of decentralized local urban management</td>
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<tr>
<td>Financing of key deferred infrastructure needs i.e. the main Nakivubo drainage channel; Alternative basic service delivery to improve service delivery standards; Institutional support to strengthen Kampala City Council’s reform program</td>
<td>Nakivubo Channel Rehabilitation Project (Credit 3203-UG)</td>
<td>S</td>
</tr>
<tr>
<td>Small scale infrastructure rehabilitation to improve the living standards and working conditions of some of the poorest communities Low-cost sanitation improvement to improve the access of urban residents living in hazardous environmental conditions to adequate water supply and sanitation facilities in the Rubaga Division of Kampala City Council</td>
<td>Program for Alleviation of Poverty and Social Costs of Adjustment (Credit 2088-UG)</td>
<td>S</td>
</tr>
<tr>
<td>Capacity building in the Local Governments</td>
<td>Institutional Capacity Building Project (ICBP)</td>
<td>S</td>
</tr>
<tr>
<td>Capacity building to support economic and financial management</td>
<td>Economic and Financial Management Project which has been completed</td>
<td>S</td>
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</tbody>
</table>
### Sector Issue

- Synchronize Central Government and Local Government accounting and control procedures
- Demand-driven investment priority setting at the community level;
- 10 percent community contribution towards capital investment cost;
- Sustainability of investments through community contribution (in cash and kind) for operations and maintenance

### Project

- Second Economic and Financial Management Project (EFMP II)
- Preparatory phase of LGDP financed under a PPF and 2 PHRD grants

### Other development agencies

- District Development Project – Pilot, financed by UNCDF/UNDP
- Katwe Pilot Urban Project, financed by UNDP.
- Kalerwe Community Based Drainage Upgrading Pilot Project, financed by UNDP/ILO

### Latest Supervision (PSR) Ratings (Bank-financed projects only)

<table>
<thead>
<tr>
<th>Implementation Progress (IP)</th>
<th>Development Objective (DO)</th>
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<tbody>
<tr>
<td>Planned project (to start in 2000)</td>
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</tbody>
</table>

### IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

#### 3. Lessons learned and reflected in the project design:

38. The Government of Uganda's *Uganda Participatory Poverty Assessment* report which details the perceptions and insights of the poor with regard to various aspects such as the nature of poverty, social/economic strategies, services/infrastructure, governance, and security has enabled the Government to recognize it as an invaluable tool for planning purposes in its efforts to reduce poverty. The report's findings as to what may be required for better delivery of services from the perspective of the poor communities has been incorporated in the participatory consultative process with the beneficiary communities—a key design feature of the project.

39. In addition, a detailed Community Participation Review exercise was conducted in the early preparatory stage of LGDP to analyze and document various demand-driven approaches to investment planning, decision-making and implementation. This analysis provided the basis for defining the participatory approach to the project drawing on the best practices that were identified. Most government projects, however, have tended to be “top-down” with “vertical or parallel” structures although quite a number of projects in Uganda have been conceptualized and implemented using the participatory approach, mainly by NGOs. These projects omitted and/or limited the involvement of the key stakeholders or target beneficiaries in the decision-making and implementation phase. As a result, such projects have been regarded as “external” lacking beneficiary support, commitment, and ownership and, therefore, have not been sustainable.

40. In this context the lessons learned from these previous projects include:

(i) Lack of community consultation resulting in adverse public reaction;
(ii) Lack of ownership due to inadequate involvement of the client in the decision making process;
(iii) Unsustainable investments due to inadequate attention to operations and maintenance;
(iv) Lack of capacity in the client to effectively manage investment contracts.

41. Successful implementation of this project is, therefore, dependent on a strong sense of ownership by
the clients, effective community participation and consultation, identification of the most appropriate,
affordable, cost-effective solutions taking into account both capital and maintenance costs, proper design,
selection of qualified contractors, a strong construction supervision team to oversee those investments which
include civil works construction, and proper provision for operations and maintenance. Some of these aspects
were successfully incorporated in the preparatory phase of LGDP which included micro investments at the
community level in four pilot municipalities. An evaluation of this process was carried out recently and its
findings testify to the success of this approach.

42. The proposed project design incorporates the following:

(i) Provision of construction supervision oversight services;
(ii) Operations and maintenance of the completed investments to be financed by the Local Governments
and/or beneficiary communities to ensure sustainability of investments;
(iii) Institutional support to Local Governments to build their capacity in the areas of program
management, etc.
(iv) Participation of the stakeholders in the design and implementation of strategies meant to alleviate
their problems;
(v) The strengthening/creation of civic societies, which are linked to institutionalized organs like the
Local Councils, to provide a strong base from which to elicit participation; and
(vi) The use of community counterparts to complement project staff to ensure sustainability of
investments.

43. The twice yearly evaluation process for the DDP-Pilot (also a feature of the LGDP M&E design) has
also underscored the important role of Central Government in the decentralization process. Indeed, the bi-
nannual National Decentralization Forums for DDP/LGDP have used field implementation experience to
demonstrate how lack of capacity at the center, to mentor, provide technical assistance and supervisory
services to Local Governments, is adversely affecting their compliance with regulations, accountability and
performance. This evidence has been instrumental in the design of Component 1, in particular, support
focussing on the MoLG and LGFC.

44. To facilitate the evaluation process and capacity building, municipal and district resource pools in the
areas of finance, planning and M&E, engineering, internal audit, administration and community management
have been created based upon implementation experience from the DDP-Pilot and the micro projects program
in the LGDP preparatory phase. The resource pool concept has been internalized and institutionalized both
within the LGs and in MoLG. A training package covering the topics described above has been developed by
the PMU. The process of creating these district and municipal resource pools is as follows. First, LGs identify
about five key persons from each district/municipal LG to be included in these resource pools. Then the PMU
conducts a comprehensive Training of Trainers session with the people identified whereby a core group in the
LGs is formed who understand the LGDP concept and its implementation process. These resource pools are
then used during the bi-annual performance assessment exercises along with representatives from the PMU,
MoFPED, MoLG and private consultants who fan out in teams across various regions to conduct the
assessment. The main advantages arising out of this resource pool concept are: the creation of a critical mass
in the LGs that understand the concept and process of LGDP; the individuals in the resource pool can provide
key skills on short notice and quick turnaround time to give assistance to the LGs in capacity building
activities; resource pool members are also responsible for LGDP sub-project implementation in their
respective LGs; and most importantly, the cross fertilization that occurs from having participated in the
performance assessments across various regions looking at things from different context sensitive perspectives has proved to be a very valuable learning tool.

4. Indications of borrower commitment and ownership:

45. The borrower, the Government of Uganda, is committed to the implementation of the policy of decentralized governance. The Government is also committed to ensuring the creation of an enabling environment for the smooth implementation of the project. By empowering the civic society to participate in planning and managing the investments that they need, the Government is also ensuring the success of the program and the sustainability of the investments. These principles are embodied in the Government’s Letter of Sectoral Policy (attached as Annex 12) agreed between the Government and IDA at negotiations.

46. The Government is also committed to the implementation of the various policy reforms it has initiated such as the restructuring of line ministries. These are aimed at rightsizing line ministries, making them more responsive to their statutory provision requirements. The Government is also committed to ensure the timely auditing of all the financial transactions that will be effected under this project.

47. By deliberately liberalizing the economy and promoting Public-Private Participation, non-traditional exports and pursuing other policies aimed at alleviating poverty, the Government is directly facilitating the beneficiary communities to be able to meet their co-financing obligations.

48. In addition, the Government is committed to implementation of Conditional, Unconditional, and Equalization grants, which is a Constitutional provision. By empowering Local Governments to collect their own revenue for which they will be wholly responsible, the Government is thereby enabling Local Governments to meet their co-financing obligations and enhancing their capability to contribute as appropriate, towards sustainable maintenance of the new investments.

5. Value added of Bank support in this project:

49. The World Bank has supported the formulation of LGDP from the conceptual period of the project in 1995 through the provision of one PPF, two PHRD grants and funds from ICBP. It has also supported improved service delivery in Kampala City Council through the First Urban Project. In addition, under the First Urban Project it supported the Kampala City Council and the Jinja Municipality to undertake the Kampala and Jinja Urban Studies to develop the Structure Plans. Furthermore, the Bank has supported the Government in its decentralization program through the financing of administrative and financial reforms through the Institutional Capacity Building Project and the First Economic and Financial Management Project.

50. The proposed LGDP is fully consistent with the objectives of the CAS 1997, in terms of both providing for improved service delivery and interventions for poverty reduction through provision of decentralized development funds to Local Governments. The Government hopes that IDA participation in the implementation of LGDP will encourage other donors to provide horizontal financial facilities through a development pool to be accessed by Local Governments to finance priority investment programs at the local level. The value of the Bank’s involvement in the project is, therefore, to assist the Government to implement decentralization of the development budget to the Local Governments in a fiscally prudent manner, with transparent eligibility rules and procedures for access by the Local Governments.

51. The World Bank’s participation in the LGDP process has proved to be a catalyst to attract other donor support for the implementation of decentralization. Both UNDP and UNCDF have declared their intention to provide parallel financing through the LGDP grant mechanisms, subject to agreement with GoU. The partnership between GoU, IDA and UNDP/UNCDF established in 1995 will thereby be reaffirmed through the UN Country Cooperation Framework (2001 cycle) and the Country Development Framework. In addition to DANIDA which is actively involved in supporting decentralization implementation, DFID, USAID, Irish
Aid and the Belgian bilateral aid agency are also seriously considering providing parallel financing within the LGDP framework, primarily for capacity building activities. As an indication of their interest, UNCDF, DFID and USAID also participated in the Bank's appraisal of LGDP. The emerging consensus amongst several key donors to support the principles of LGDP, i.e., demand-driven approach to investment prioritization and ensuring ownership is consistent with the Bank's Comprehensive Development Framework approach for which Uganda is a pilot country.

E. SUMMARY PROJECT ANALYSIS (Detailed assessments are in the project file, see Annex 8)

1. Economic (supported by Annex 4):

Economic evaluation methodology:

[X] Cost benefit
[] Cost effectiveness
[] Other (specify)

Summarize issues below [X] To be defined [ ] None [ ]

52. The project is not a traditional investment project; rather, it involves testing and replicating a system for participatory, demand-driven investment allocation, planning, implementation and maintenance of investments in support of the decentralization process. The investment composition therefore, cannot be determined a priori. The justification of LGDP must be conceived in terms of the validity and effectiveness of the decentralization setup to prioritize, select and implement sub-projects and put in place a well conceived M&E system. A methodology to prioritize and qualify sub-projects has been designed, tested and is fully functional. This was developed during the LGDP preparatory phase for the micro projects program in four pilot municipalities. LGDP is justified on the ground of optimizing future benefits from its development grants; expected ERR estimates based on UNCDF, DANIDA and LGDP pilot experience (see para. below); and searching for a viable alternative development strategy or fine tuning of the decentralization strategy itself.

53. Cost-benefit: The main expected benefits of LGDP are not easily quantifiable although promise to be significant. Among the not easily quantifiable benefits of LGDP are the assumed benefits from decentralization such as improved governance, enhanced public trust in Local Governments, greater accountability of Local Governments to their constituents, etc. These types of benefits, are however, critical elements of LGDP; without them the potential synergistic system-wide benefits of decentralization or the expected incremental value added due to decentralization in economic terms can not be realized. With regard to quantifiable economic benefits, the recent UNCDF, DANIDA, LGDP pilot and other similar experiments in Uganda for financing small infrastructure investments identified by communities, contracted by the local government and executed by the private sector are known to yield Economic Rates of Return of above 12%. These sector analyses carried out by both central government line ministries and UNCDF, DANIDA and the PMU for the LGDP pilot indicate that typical investments by Local Governments in the sectors under the Second Schedule (Parts 2-5) of the Local Governments Act, 1997 have Social Returns on Investments (SRI) ranging from 12 percent for feeder roads and much higher (around 180 percent) for safe drinking water and environmental sanitation.

54. Cost-effectiveness. The LGDP process has a better chance of assuring cost-effectiveness than projects with similar objectives. Analysis of the recent UNCDF financed DDP-Pilot indicates that the overhead costs (contracting out and monitoring) is between 4% to 6% of the total cost of the project for private sector contracted projects and is between 12% to 17% of the total project cost for force account projects. The system also allows service delivery to a large number of parishes to meet basic service needs in a 3-year period, thus greatly enhancing the actual benefits and development while reducing the overheads per parish or per sub-county.
55. Fiscal Impact. The fiscal impact of LGDP represents about 3% of the national budget (1998) at peak year disbursement; and is only a small component of the national Development Expenditure. LGDP is, therefore, small enough so as not to have a significant fiscal impact at the macroeconomic level. At the local level LGDP covers 30 of the 44 districts (about 63% of the total population) in the country with an estimated population of some 14.5 million people and all the 13 municipalities and 1 city (Kampala) in the country with an estimated urban population of about 2 million. Beside LGDP (potentially), funds from other donors, local government revenue, and Central Government Grants (conditional and unconditional) are contributed to the overall pool of the local development grant. In addition, communities will be required to contribute about 10% of the capital costs of investments in cash or in kind to fill the resource gaps to get their priority project implemented; and, to cover operations and maintenance costs. Demonstrated community ownership of projects is also likely to reduce the burden on central government finances. Further, to the extent that Component 2 of LGDP (districts and municipalities) is being financed as a grant from the Central Government to Local Governments, there is no expense for cost of recovery. At the same time the increase in economic activities from the Local Government Development Grant would generate tax revenues from income and other tax bases. These additional revenues would improve the Local Governments capacity to finance other development programs and O&M. Overall, the fiscal impact of LGDP on central government finances is, therefore, small while the promised benefit is significant.

56. Risks: There are obviously considerable risks associated with funding a project of this nature. Where local government is weak and local government accountability to constituents is not well developed, Local Governments may not choose appropriate projects and deliver the service efficiently. Under such circumstances, the various potential benefits of decentralization outlined above are unlikely to be realized. To mitigate these risks, the design of the project has a well coordinated central government supervisory and support structure (MoLG); technical assistance and capacity building efforts for participating Local Governments and sensitization of communities about their rights and responsibilities under the decentralized system. Specifically, in order to ensure that LGDP finances projects that yields high ERR and that are sustainable, the design of the project has adequate safeguards which enhance the benefits and minimize the risks.

2. Financial (see Annex 5): NPV=; FRR = %

Summarize issues below [X] To be defined [ ] None [ ]

57. It is envisaged that project funds will be fully integrated within the local government budgeting and financial cycle. However there is an issue of fiscal risks which may arise through diversion of project funds for purposes not included in the project by the Local Governments due to lack of accountability and transparency. It is expected that the correct use and accountability of project funds will be effected by adhering to the Local Governments Financial and Accounting Regulations, 1998, to be further reinforced by the initiatives under ICBP and EFMP II.

(i) Analysis of the Financial Structure, Efficiency and Viability of the Project Entity: (a) The PMU conducted an assessment of minimum conditions for Districts and Municipal Local Governments to be eligible for inclusion in year 1 of LGDP. These minimum conditions are based on the provisions of the Local Governments Act, 1997 and the Local Governments Financial and Accounting Regulations, 1998 and include functional capacities for District/Municipal development planning, internal audit, financial management and engineering. 31 Districts (including Kampala City) and 13 Municipalities were assessed in order to: verify compliance of these LGs to the provisions of the laws especially the LGs Act, 1997 and the LGFAR, 1998; assist LGs to identify functional training (capacity building) needs; and offer support and suggest ways through which LGs can be mentored to progressively improve performance. The findings of this assessment with regard to financial management in the LGs indicates that the performance of the LGs in this area is much better than performance in other areas. All the LGs are adhering to the provisions of the law but in varying degrees. The LGs assessed are maintaining statutory books of accounts but some of them are not up to date. With regard to internal audit, however, it was noted that staffing of this function is poor both in terms of
quality of staff and numbers employed and the internal audit sections are not as well facilitated as other
departments in the LGs thus affecting the coverage and regularity of the audit exercises.

(b) For Component 3 for which the Kampala City Council is the implementing agency, the following applies.
To ensure the sustainability of on-going investments, and as an integral part of the Strategic Framework for
Reform, KCC has embarked on a broad program of financial management improvements. The main elements
of these improvements include:
   a) gradually rightsizing the establishment, thereby achieving proportionately optimal employee
costs;
   b) improving revenue mobilization efforts to be undertaken under this project;
   c) more realistic service/cost center oriented budgeting practices and expenditure management
   systems;
   d) reorganizing from a traditional department-based institution into a service/cost center-based
   organization; and
   e) involving the private sector in the performance of many of its non-statutory functions in order to
   improve on service delivery.

The change to a service/cost center-based organization would enable KCC to match its costs to actual
functions and thereby evaluate and assess the efficiency of its service delivery functions accurately and on an
individual basis. It must be noted that it is too early to assess what the exact impact of the various initiatives
may be over the medium to long term on the overall financial health of KCC. However, some improvements
have been noted in its revenue mobilization and expenditure management efforts in recent years. The bottom
line is that KCC still remains financially dependent on external resources to meet its capital investment needs.
To put this into perspective, KCC’s overall budget (actual) over the recent past has been about US$10–12
million annually. Of this, KCC has spent about US$9–10 million on recurrent costs, leaving only marginal
amounts for capital investments. Very broad conservative estimates indicate that KCC would continue to run
an operating deficit, on a gradually declining basis, for at least another eight to ten years, beyond which it can
reasonably be expected to finance fully all operating and maintenance costs from internally generated
revenues and to begin to marginally contribute towards capital expenditure budgets. In the interim, much
needed investments to rehabilitate key infrastructure will have to be financed by the Government through
external donor support.

(ii) Operations and Maintenance Costs: As IDA funds under Component 2 for the districts and municipalities
will be disbursed as direct budgetary transfers from the central government, the investment choices that these
Local Governments will make cannot, therefore, be pre-determined though they have to be included in their
Three Year Development Plan. One of LGDP minimum requirements is that the Local Governments and
communities have to bear the full costs and responsibility for operations and maintenance of investments
financed through Component 2. Given the nature of the investments, which are likely to be fairly small, it has
been estimated that about 1% of the total LG excluding contingencies (i.e. US$39.45 million), that is,
US$0.39 million per year would be enough to finance operations and maintenance of all the investments
under Component 2. In order to ensure that the LGs cater for O&M costs, the subsidiary agreements will
reflect that beneficiary LGs under Component 2 will be required to maintain an O&M budget in each of their
Project Accounts.

With regard to O&M costs for investments under Component 3 for the Kampala City Council, funds from the
credit will be used primarily to finance alternative basic service delivery mechanisms. This involves giving
the five divisions under KCC, funds in successive tranches from KCC head quarters to finance the contracting
out and privatization of basic service delivery functions which cannot also be pre-determined at this stage.
However, the principle of O&M is the same as for Component 2 investments whereby the divisions and
beneficiary communities will have to cater fully for O&M costs and responsibilities.
O&M costs for landfill management are estimated to be about US$1.44 million per year which LGDP will finance for FY2001-02 after which KCC headquarters will assume the financing responsibility. Also, contracting out refuse collection and transportation will be financed through LGDP while a holistic solid waste management strategy is finalized after which KCC’s headquarters should be able to finance this activity. In this regard, it is assumed that higher revenues will be realized after reforms are undertaken both at the organizational level and at the financial management level, particularly, with the revenue enhancement exercise under LGDP and KCC (headquarters and divisions) should therefore be able to sustainably finance its O&M responsibilities. In the meantime, KCC will be required to maintain a separate O&M budget for its solid waste operations into which it would have to deposit USh 330 million on a quarterly basis starting from the quarter ending March 31, 2000 through the project closing date of June 30, 2003 in order to build up a sinking fund to cater for its solid waste O&M costs. This is reflected as a covenant in the Project Agreement.

With assistance from the MoLG, in its role as mentor to the LGS, the District/Municipal Development Plans would be developed in a manner where a holistic view of conditions on the ground would be taken and priorities established. In this context, rehabilitation of existing facilities would be given priority over similar new investments. Therefore, if O&M entailed contracting out of services to maintain a facility then LGDP would do provide financing for such O&M but it would not finance other recurrent expenditures like salary and staff costs which would have to be borne by the LGS.

(iii) Financial Covenants: See Section G.

Fiscal Impact:

Increase in Recurrent Costs Resulting from the Project and Prospects for Financing this Increase: As discussed above, IDA funds under Component 2 for the districts and municipalities will be disbursed as direct budgetary transfers to these Local Governments through the Central Government. The investment choices that these Local Governments will make cannot, therefore, be pre-determined. However, the investments have to be included in their Three Year Development Plan. One of LGDP minimum requirements is that the Local Governments and communities have to bear the full costs and responsibility for operations and maintenance of investments financed through Component 2. The financing of recurrent costs, therefore, will not have any implication on the Central Government’s budgetary sources. The same applies for recurrent costs for investments under Component 3 for the Kampala City Council.

The Availability and Certainty of Counterpart Funds for the Project: Counterpart funds for the first year (FY2000) has already been budgeted for in the Government’s Public Investment Plan. Legal covenants to ensure this are included in Section G. For Component 3 for the Kampala City Council, the counterpart contribution of 10% is KCC’s responsibility and should be provided for in its FY2000 budget. The legal covenant to ensure this in the future years requires that KCC includes the budget for counterpart funding for Component 3 in its respective annual budgets.

Budgetary Impact: LGDP represents about 3% of the national budget (1998) at peak year disbursement; and is only a small component of the national Development Expenditure of which it represents about 7% at its peak (2nd year). Also, at its peak disbursements LGDP represents about US$2.16 per capita (Source: Statistical Abstract, 1998). LGDP is, therefore, small enough so as not to have a significant fiscal impact at the macroeconomic level (see para. 55 above and Annex 4 for details).
3. Technical:
Summarize issues below [X] To be defined [ ] None [ ]

58. Choice of technology will be governed by existing national technical standards and would be arrived at through an iterative and community participatory approach based on the level of the available budget envelope, ability of the beneficiaries to contribute to the capital cost and to meet the operations and maintenance costs. This is to ensure the sustainability of investments made. However, there may be an issue in terms of the capacity of the local contracting industry and potential supply problems. The extent of this potential problem cannot be currently ascertained; however, actual implementation experience will provide the basis for necessary corrective actions.

4. Institutional:

59. The institutional arrangement for project implementation will be as per the local government structure. However, to empower communities, civic organizations within the communities will be created and strengthened to ensure that local government officials are held accountable for their actions.

60. Management of completed facilities, including operations and maintenance, shall be the responsibility of the owners/beneficiaries or wherever the recurrent cost implication lies. O&M responsibilities have been detailed in the Draft Operational Manual for the Local Government Development Grant (Annex III to the PIP).

61. To promote institutional strengthening, the project will contribute to capacity building at all levels, but most importantly in the Local Governments and in the MoLG and LGFC.

62. Monitoring and Evaluation shall be fully integrated within the local government system and shall be applied using the information management system which would have been developed by the MoLG. It shall be used for accountability, impact evaluation and learning purposes so as to inform the Government on policy issues linked to decentralization implementation and devolution of development funds.

63. Executing Agencies: The MoLG will be the executing ministry for LGDP and also the agency responsible for implementing most of Component 1 and Component 4 (see para 29(ii)(a)).

64. Project management: MoLG through the Program Management Unit shall manage the project by coordinating the activities of all other component managers. For Component 3, KCC through its Core Team will be responsible for managing the project (see paras. 28 (ii)(b) and (c) and (v) for details).

(ii) Accounting, Financial Reporting and Auditing: (See Section G for details).

(iii) Monitoring and Evaluation
The system that has been developed (see the Program Implementation Plan for further details) includes biannual performance assessments, a mid-term review and an Implementation Completion Report submitted six months after the credit closing date. MoLG will use the M&E system to be established under Component 4 as a management tool, for learning lessons and for informing the ministry on areas, which require policy reform. The areas of particular focus by the ministry are monitoring Financial Reports and Statements/Budgets, District/Municipal Development Plans, District Service Commission quarterly reports, Local Governments Audit Reports; Local Governments Staff lists; Local Council minutes; staffing levels of Local Governments; and ordinances enacted by the Districts and bye-laws by lower Local Governments.

5. Social:

65. Gender consideration is to be promoted throughout the project cycle. During the project formulation process Focus Group Discussions will be conducted to reflect affirmative action in terms of women.
a participatory consultative process the interests of "Marginalized Groups" such as the youth, persons with disabilities, and women, etc. will be accommodated. It is a statutory requirement that local government councils should have at least one-third representation by women at all levels. This will ensure that specific gender issues be given the necessary attention they deserve.

66. Monitoring and evaluation indicators have been developed to take into consideration the impact of the project towards poverty reduction. The success of the decentralized approach to governance shall, to a large extent be measured against this parameter.


67. The investments under this project will focus on the improvement of services under the Second Schedule (Parts 2–5) of the Local Governments Act, 1997 for which Local Governments have mandated responsibilities. These investments will fall under various sectors under the Second Schedule such as water supply, drainage, sanitation, solid waste management, access roads, construction of schools and health facilities, etc. Given that the investments under consideration focus on improving the delivery of basic services thereby resulting in improved living conditions this project has a Category B rating.

68. The investments under the project would be sectorally varied given that they will be determined by local-level priorities which will differ from one local government to another. Due to the diverse nature of the investments, the scope of the environmental analysis for each investment would also vary. Modular sector-specific (for water supply, sanitation, drainage, solid waste disposal, access roads and general construction) environmental checklists have been prepared for the project and these checklists will be used to determine that the investments conform to environmentally appropriate guidelines and that they incorporate the mitigation measures defined therein.

69. All projects before implementation will be subjected to the environmental checklist to ensure that they meet the environmental requirements and follow the prescribed mitigation measures. Local Governments will therefore be required to apply the environmental checklists for appraising their investments and comply with the mitigation measures contained therein. In addition, routine checks would be made to ensure that individual investments also conform to nationally applicable environmental standards. All of these measures are contained in the Environmental Mitigation Plan (Annex 21 of the PIP) prepared for the project.

70. The project does not intend to displace any settler within the project location. Project design, determination of investment sites and implementation arrangements are all to be formulated through a participatory process. Implementation of past similar projects such as the parish level investments in Kampala has revealed that communities, through a participatory consultative process were willing to surrender parts of their private land for project sites without any dislocation of their settlements or compensation. The project will therefore avoid areas or situations that may lead to land disputes. Through such a policy understanding of the beneficiaries, the issue of resettlement and/or compensation is anticipated not to be a major issue. Availability of land without any form of encumbrances is one of the prerequisites for project site selection and implementation.

7. Participatory Approach (key stakeholders, how involved, and what they have influenced; if participatory approach not used, describe why not applicable):

Primary beneficiaries and other affected groups:

[X] Name and describe groups, how involved, and what they have influenced.

[ ] Not applicable (describe why participatory approach not applicable with these groups)

71. As mentioned earlier, the project has been designed as a demand-driven, community participatory and performance-based operation. Participatory techniques will, therefore, continue to be used during the
formulation of specific investments at the local level. Intensive consultations will be undertaken with the stakeholders using various methods such as Stakeholder Analysis, Focus Group Discussions, Seminars and Workshops, and Gender Analysis. This participatory approach will be enforced by providing an investment budget envelope to all the levels of Local Governments including the parish/communities which may be accessed after they meet the eligibility requirements.

72. The bottom-up approach is encapsulated in the following. Expanded parish planning meetings which include the communities along with CBOs, extension workers in areas such as agriculture, health assistants, etc. are held to identify and plan priority community sub-projects. The more complex issues such as detailed sub-project costs, O&M arrangements, designs etc., are forwarded to the sub-county/division for further discussion and processing of the sub-project proposal. At the sub-county/division forum which is composed of sub-county/division technical officers, elected councilors, CBOs, NGOs working in the area, etc. these sub-projects forwarded by the parishes are further refined and incorporated into the Sub-county Investment Plan. At that stage the sub-project proposals are forwarded to the district/municipality for further refinement and incorporation into the District/Municipal Development Plan.

73. Being a participatory project, beneficiaries are expected to be directly involved in the whole project cycle right from the design and technology choice so as to ensure that an appropriate technology and technique which is within their capabilities to manage, operate and maintain is obtained. Choice of investment levels will be determined partly also by the budget envelope that can be mobilized by the communities/beneficiaries while those funds coming from the project will, to a large extent, be used to supplement beneficiaries' efforts. The involvement of Councilors at all tiers of the Local Council system will enhance the much needed participation of the local leadership and decision makers at the respective levels. "Marginalized" group needs will also be incorporated. Annex III of the Program Implementation Plan which is the draft Operational Manual for the Local Government Development Grant has clear procedures outlined in sections 3.4 and 3.5 on Community Infrastructure Projects Cycle which includes community involvement from sub-project approval to contractor identification, procurement, sub-project implementation and evaluation of the performance of the community in sub-project implementation by the district/municipal council. Similar procedures have also been laid down for division and municipal level investments, and sub-county and district level investments in sections 4.4. and 5.4 respectively.

74. To further ownership, 10 percent of the capital investment costs will be co-financed by the LGs and/or communities depending on the scale and nature of the investment. Also, operations and maintenance costs will be linked to the level at which the recurrent cost lies. It therefore follows that for most community projects the responsibility for operating and maintaining the investments rests with the communities. It will therefore be incumbent upon the community, through a participatory approach, to work out the necessary modalities and plans for the operations and maintenance of the community investments.

75. Accountability, transparency and responsiveness of LGs to their constituent communities will be a key feature. Under the preparatory phase of LGDP, a Service Delivery Information System has been developed which actually tracks the whole system of delivery—from the community generated and prioritized request to the actual delivery of the investments against normative action steps and times. This information has proved to be a very useful mechanism for tracking accountability and demand-responsiveness of LGs to the communities. LGDP will incorporate this in the overall M&E system to measure the LGs against these parameters.

Other key stakeholders:

[X ] Name and describe groups, how involved, and what they have influenced.

76. Other stakeholders such as donors and National Water and Sewerage Corporation, NGOs, CBOs, the private sector (business enterprises, local contractors and consultants) who are already operating in these Local Governments will be consulted to ensure co-ordination and avoid duplication of efforts.
F: SUSTAINABILITY AND RISKS

1. Sustainability:

77. During the project preparatory phase it was observed that there were serious financial and other capacity constraints at both the Central and Local Governments level. Sustainability of individual investments at the local level has, therefore, been considered within the following context:

- enhance locally generated revenue base;
- affordability of investments within competing budget constraints;
- stakeholders participation in all the project activities;
- per capita investment level which reflects the long-term local government fiscal potentials;
- local government and community responsibility for development and maintenance costs; and
- the charge of user fees to raise the necessary resources for O&M and for asset replacement of the investments made.

78. In addition, the level of investment has been arrived at based on absorptive capacity of the LGs and beneficiary communities. The average household per capita income of urban communities is about US$360 per annum. The Willingness-to-Pay survey which was carried out in the four pilot municipalities under the LGDP preparatory phase indicated that on average households were willing to spend about 1.7% of their total household income as a contribution towards financing capital investment costs. About 5% of their income were for recurrent cost expenditures such as payment of user fees. Average revenues and expenditures for the four municipalities indicate that investment expenditure is about 10% of the local total revenue realized. These figures were used to develop the budget envelope for Component 2 of the project, which reflect the absorptive capacity of the beneficiary communities and the municipalities and is similar for the Districts. Local Governments and communities shall therefore choose and prioritize their investments based on the budget envelope. The envelope shall be used as a planning guide for determining the level of investment. Technology choice is to be based on the budget envelope and the ability of the beneficiaries to operate and maintain the system. The 10 percent contribution towards capital investment costs is to ensure that the beneficiaries buy into and own the project. Beneficiary communities will be encouraged to open their private accounts where contributions towards capital investment and future revenues realized from the sales of services under the project will be banked. Such money could be used, for instance, for paying the O&M costs of the investments. Beneficiary communities have already, through their Community Development Committees opened their private accounts. The 12 qualifying districts in the first year of the project have also opened their Project Accounts and banked the 10% of the communicated Indicative Planning Figures for FY2000. Under LGDP, Local Governments will be encouraged to attract private sector financing to support the resource constraints currently being faced by the Local Governments.

79. Management and operation arrangements have been linked to ownership or where the recurrent expenditure falls. This is to ensure that management and operation of facilities are not divorced from those who have the highest stake in the investment.

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3 Based on the National Household Surveys carried out in 1992.
2. **Critical Risks** (reflecting assumptions in the fourth column of Annex I):

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Rating</th>
<th>Risk Minimization Measure</th>
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<tbody>
<tr>
<td>Sufficient staff, resources and technical support provided to MoLG to facilitate restructuring and reorientation of organizational mission, functions and approaches.</td>
<td>S</td>
<td>• Policy analysis, capacity building and project management inputs through Components 1 and 4.</td>
</tr>
</tbody>
</table>
| Existence of an effective system for monitoring and evaluation of central government initiatives and policies in line with decentralization policy. | M           | • Strong M&E framework under Component 4  
• Cross linkages and learning from UNCDF financed DDP-Pilot. |
| Establishment of effective system for monitoring and enforcing compliance of Local Governments through appropriate incentive and sanction procedures. | M           | • Support to and capacity building of the Directorate of Local Government Administration and Inspectorate of MoLG under Component 1  
• M&E under Component 4  
• Performance based allocation of capital budget  
• Explicit funding for audit function |
| LGFC has the capacity to deliver on its mandate. | N           | • Multi donor (DFID, DANIDA and IDA) assistance and technical support.  
• Specific capacity building input under Component 1 |
| Central government providing resources consistent with devolved functions, mentoring Local Governments and coordinating policy and regulations. | N           | • MoFPED covenant |
| Existence of efficient private services market capable of responding to service provision opportunities provided by LGs. | M           | • Formation of a resource pool of private sector providers  
• Capacity building fund available for contractors/consultants through the LGs |
| LGs adopting a participatory bottom up inclusive planning process. | N           | • Embodied in the DDP-Pilot process and sub-project prioritization process |
| KCC’s commitment to sustained efforts at improving program management and delivery capacity. | M           | • Availability of the KCC Core Team  
• Support for alternative basic service delivery under Component 3  
• Critical review of organizational changes  
• Strict monitoring and evaluation |
| Adequate and competent staff base in KCC. | M           | • Implementation of organizational reforms  
• Availability of the Core Team |
| KCC’s adoption of a rationalized revenue mobilization strategy and prioritized expenditure framework | M           | • Implementation of organizational reforms  
• Availability of the Core Team |
| Meeting accountability requirements of MoLG and LGs. | S           | • Embodied in access/qualifying criteria for continuing participation in the project  
• Specific funding for audit function under Component 4 |
<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Rating</th>
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<tr>
<td>From Components to Outputs</td>
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</tbody>
</table>
| Timely and adequate deployment of resources (including recurrent, O&M) as required for MoLG functional capacity for implementation of decentralization policy. | M | • Explicit budgetary provision made in Component 4.  
• Clear outputs and targets by activity pre-defined and identified |
| Existence of capable staff and consultants who are well equipped and facilitated. | M | • Covenant on recruitment of staff in MoLG  
• Capacity building inputs under Component 1 |
| Adequate funding and personnel at center and trainable or competent staff at Local Governments. | M | • Explicit budget provision  
• MoLG/PMU staffing covenants |
| MoLG have the resources and logistics to carry out regular M&E and can cause implementation of the findings and recommendations. | M | • Pre-requisite for DDP-Pilot and LGDP sub-project selection |
| A council which consults with the population and has the necessary resources for O&M for community and LG investments. | M | • Pre-requisite by way of 10% community counterpart contribution |
| Willingness of the community to participate and contribute towards the investment cost. | M | • Minimum staffing complement a pre-requisite for qualifying into the project  
• Capacity building budget for relevant training of staff |
| Existence of trainable staff at LG level. | S | • Availability of the Core Team  
• Strict monitoring and evaluation  
• Periodic exposure of members of Council and staff to best practices  
• Continued sensitization of stakeholders |
| Adherence to the principles and modalities of the SFR implementation plan. | M | • Explicit budget provision in Component 4 |
| Adequate and timely funding for program management and administration. | M | • Explicit budget provision in Component 4 |
| Adequate resources for M&E activities | M | • All the above |

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

3. Possible Controversial Aspects

80. None

G: MAIN LOAN CONDITIONS

1. Effectiveness Conditions

81. (i) MoLG through its PMU to submit a Financial Management Manual acceptable to IDA; (ii) MoLG to appoint a suitably qualified Project Accountant and Procurement Specialist at the PMU; (iii) Government will ensure that a Project Account for Components 1 and 4 (MoLG) is operational and that an initial deposit of US$350,000 equivalent is made; (iv) KCC will ensure that a Project Account is operational and that an initial deposit of US$220,000 equivalent is made; and (v) A signed subsidiary agreement to be executed between the Government and KCC.
2. Other [classify according to covenant types used in the Legal Agreements.]

**Board Presentation:** Government has fulfilled the condition for Board Presentation by submitting the final signed Letter of Sectoral Policy (attached as Annex 12) to IDA.

**Negotiations:** The following were agreed upon at negotiations:

(i) **Accounts/Audits:** Separate statements of accounts will be kept for Components 1, 2 and 4 (MoLG) and for Component 3 (KCC) and will be kept in accordance with generally accepted accounting principles. These accounts will be separately audited and such reports will be made available within 6 months of the year end. The audit will cover certification of the project income and expenditures, special accounts (Components 1 and 4, and Component 3) and of SOEs or PMRs for the same components. In addition, terms of reference for the external audit were also agreed upon at negotiations.

(ii) **Bank Accounts:** Separate Special Accounts will be opened for Components 1 and 4 (MoLG) and Component 3 (KCC) in commercial banks acceptable to IDA. Separate Project Accounts will also be opened for Components 1 and 4 and Component 3.

(iii) **Fiscal Transfers (Component 2):** Component 2 tranche releases will be made directly from the IDA Credit to a Deposit Account in the Bank of Uganda and will be conditional upon:

(a) For the first tranche release, the receipt of:

- cash flow forecasts for the second half of FY2000 for the Local Development Grants based on the District and Municipal Development Plans of qualified LGs and for the Capacity Building Grants for all eligible LGs; and

- Participation Agreements between the Government and eligible higher level Local Governments (districts and municipalities).

- Standard format Participation Agreements to be entered into between eligible higher level Local Governments and eligible lower level Local Governments (sub-counties, divisions, and town councils).

(b) For the next two tranche releases, the receipt of:

- a satisfactory report on Financial Performance Assessment carried out by MoLG (requirements to be included in the report are detailed in the Development Credit Agreement);

- a schedule indicating the amount of Local Development Grant and Capacity Building Grant that has been released to the eligible Local Governments during the preceding accounting period and the amounts to be released, on a quarterly basis, to eligible Local Governments for the next accounting period;

- a certification indicating that there have been no significant reallocations, deviations, suspension or partial suspension of funds released under the previous tranches as compared against the Indicative Planning Figures for the Local Governments;

- Participation Agreements between the Government and the eligible higher level local governments.

Funds will be released by the Government to the Local Governments on a quarterly basis.
(iv) **Counterpart Funding:** (a) MoFPED will include LGDP funds and Government counterpart contribution for Components 1 and 4 in its respective annual budgets and Development Budget; and (b) KCC will include the budget for counterpart funding for Component 3 in its respective annual budgets.

(v) **Operations and Maintenance Budget:** (a) KCC to maintain a separate Operations and Maintenance budget for its solid waste operations and to deposit USh 330 million on a quarterly basis starting from the quarter ending March 31, 2000 through the project closing date of June 30, 2003.

(vi) **Management Aspects of the Project:** (a) MoLG shall maintain with staffing and function, satisfactory to IDA, its PMU responsible for the implementation of the project; (b) MoLG to complete recruitment for all vacant positions for senior staff in the ministry by June 30, 2000; and (c) KCC shall maintain with staffing and function, satisfactory to IDA, its Core Team responsible for the implementation of the project.

(vii) **Monitoring, Review and Reporting:** MoLG and KCC to submit quarterly PMRs, acceptable to IDA, as per LACI requirements.

(viii) **Mid-term Review:** MoLG, through its PMU, will conduct a mid-term review of LGDP by November 15, 2001.

(ix) **PMR-based Disbursements:** The current accounting arrangements satisfy the minimum requirements of OP 10.02. In order to change the disbursement process to PMR-based disbursements by December 31, 2000, an action plan was discussed and agreed upon at negotiations. Disbursements under Component 3 for KCC may proceed earlier in line with procedures established under the NCRP.

(x) **Other:** The Government to submit to IDA a final *Roadmap for the Implementation of Decentralization* by June 30, 2000.

**H. READINESS FOR IMPLEMENTATION**

[X] The engineering design documents for the first year's activities are complete and ready for the start of project implementation.

[X] Not applicable.

[X] The procurement documents for the first year's activities are complete and ready for the start of project implementation.

[X] Not applicable.

[X] The Program Implementation Plan has been appraised and found to be realistic and of satisfactory quality.

[ ] The following items are lacking and are discussed under loan conditions (Section G):

**I. COMPLIANCE WITH BANK POLICIES**

[X] This project complies with all applicable Bank policies.

[ ] The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.

Gautam Sengupta  
Team Leader  

Jeffrey S. Racki  
Sector Manager  

James W. Adams  
Country Director
Annex 1: Project Design Summary

UGANDA: Local Government Development Program

<table>
<thead>
<tr>
<th>Hierarchy of Objectives</th>
<th>Key Performance Indicators</th>
<th>Monitoring &amp; Evaluation</th>
<th>Critical Assumptions</th>
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</thead>
<tbody>
<tr>
<td>Sector-related CAS Goal:</td>
<td>Sector Indicators:</td>
<td></td>
<td>(from Goal to Bank Mission)</td>
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<tr>
<td>Improving delivery of basic services to engender economic growth and poverty reduction according to the Government’s decentralization policy</td>
<td>Efficient and improved service delivery standards at the local government level</td>
<td>Local Governments’ annual reports, budgets and expenditures</td>
<td>Stable political environment and sustainable macro-economic policies</td>
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<td>Government commitment to pursue its decentralization policy and provide the requisite financial resources</td>
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<td>Project Development Objective:</td>
<td>Outcome / Impact Indicators:</td>
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<td>(from Objective to Goal)</td>
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<tr>
<td>1. Test the feasibility of implementing of constitutional and legal mandates with respect to decentralized service provision and devolution of the development budget.</td>
<td>Better planning, financing and delivery of services by the LGs in a sustainable manner.</td>
<td>Compliance audit reports</td>
<td>Government agencies meeting their resource transfer and supervision/inspection responsibilities to ensure LG accountability.</td>
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<tr>
<td>2. Build the capacity of the MoLG, LGFC and a sub-set of the LGs for improved service delivery, accountability and transparency.</td>
<td>Strengthened and effective MoLG and LGFC delivering on their statutory mandates</td>
<td>Budget and annual accounts audit, implementation cost analysis reports</td>
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<td>3. Introduce and test alternative service delivery mechanisms through private sector, beneficiary communities and other stakeholders in Kampala City Council.</td>
<td>Improved applications of the provisions of the Local Governments Act, 1997 and the LGs Financial and Accounting Regulations, 1998 by LGs in their operations</td>
<td>Financial and technical audit reports</td>
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<td>4. Monitor and evaluate project implementation for actual experience and good practices for formulating an appropriate strategy, implementation modalities, and phasing for eventual scaling up nationally, over time.</td>
<td>Better coverage and lower unit costs of various public services delivered.</td>
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<td>Increased delivery of basic public services by the private sector.</td>
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<td>A sustainable Management Information System integrated with the Monitoring and Evaluation system developed and tested including the collection, analysis, storage and application of data for planning purposes for LGs.</td>
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<td>Procedures, arrangements and model documents and guidelines that are fully demonstrated to be ready for replication in all local governments in the country</td>
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<td>Scaled-up National LGDP approved by the Government.</td>
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<tr>
<td><strong>Output from each component:</strong> Component 1</td>
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<tr>
<td>1. (i) (a) Training of MoLG staff (b) Adequate logistical support and office equipment.</td>
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<td><strong>Output Indicators:</strong></td>
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<td>Number of staff trained; Fully functional facilities.</td>
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<td>Local government compliance guidelines, regulations, standards and procedures developed and disseminated by MoLG along with monitoring and regulatory activities.</td>
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<td>A good percentage of eligible District and Municipal Local Governments meeting minimum requirements and guidelines in accountability, planning and implementation of service delivery investments.</td>
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<td>Project reports:</td>
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<td>Line Ministries policy statement documents,</td>
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<td>Local Governments performance Audit reports</td>
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<tr>
<td>(from Outputs to Objective)</td>
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<td>Sufficient staff, resources and technical support provided to MoLG to facilitate restructuring and reorientation of organizational mission, functions and approaches.</td>
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<td>Existence of an effective system for monitoring and evaluation of central government initiatives and policies in line with decentralization policy</td>
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<tr>
<td>Establishment of effective system for monitoring and enforcing compliance of Local Governments through appropriate incentive and sanction procedures.</td>
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<tr>
<td><strong>(ii) (a) Simplified manuals, guides, pamphlets, training and communication materials for mentoring LGs by MoLG (b) Workshops to train LGs on laws, regulations and procedures governing the operations and performances of LGs</strong></td>
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<tr>
<td><strong>(iii) (a) LGs Inspection Manual; (b) Workshops at District head quarters attended by District and Municipal heads of departments; (c) Inspection reports; (d) Regional workshops for feed backs on the inspection findings and recommendations attended by CAOs; TCs; CFOs; CIAs; and secretary for finance for all the Districts and Municipalities (a total of 232 participants).</strong></td>
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<td><strong>(iv) (a) M&amp;E Manual for LGs; (b) Workshops for MoLG and LGs staff on the M&amp;E manual for LGs; (c) Quarterly M&amp;E reports; (d) Regional workshops for feed back to LGs on the M&amp;E review findings and recommendations to Districts and Municipal heads of Departments (a total of 580 participants).</strong></td>
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<tr>
<td><strong>(v) (a) Draft amendments to the Property Rates Decree and Country and Town Planning; (b) Workshops with line Ministries and LGs; (c) Copies of Procedures &amp; Guidelines for Coordinating donor support to LGs.</strong></td>
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<tr>
<td><strong>(vi) (a) LGs Data collection manual; (b) 60 computers and accessories; (c) Databanks for District and Municipal LGs; (d) 250 system users trained from MoLG; Districts and Municipalities.</strong></td>
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<tr>
<td>2. (i) (a) Study report on revenue sharing between LGs and improving LGs taxes; (b) Workshops to review the study findings and recommendations on improvement of LGs taxes.</td>
<td>LGFC advising government on revenue sharing, fiscal transfer instruments and taxation reform in support of Local Governments</td>
<td>LGFC advice to central government on revenue, instruments and reforms. LG performance audit report by MoLG</td>
<td>LGFC has the capacity to deliver on its mandate.</td>
</tr>
<tr>
<td>(ii) (a) Training of LGFC Staff; (b) Additional office space and retooling</td>
<td>Number of staff trained; Fully functional facilities.</td>
<td>Analysis of District and Urban Council Budgets report</td>
<td>Central government providing resources consistent with devolved functions, mentoring Local Governments and coordinating policy and regulations.</td>
</tr>
<tr>
<td>Component 2</td>
<td>Eligible LGs routinely complying with statutory procedures (LG Act 1997, LGFAR 1998).</td>
<td>Quarterly progress reports Performance audit reports Annual evaluation report by MoLG.</td>
<td>Existence of efficient private services market capable of responding to service provision opportunities provided by LGs.</td>
</tr>
<tr>
<td>(i) Outcome-oriented development plans for each level of LGs in the pilot</td>
<td>Eligible LGs adopting output oriented budgeting and planning and service production arrangements.</td>
<td></td>
<td>LGs adopting a participatory bottom up inclusive planning process.</td>
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<tr>
<td>(ii) Completed and sustained priority LG investments</td>
<td>50% of total expenditure by eligible LGs for service provision is contracted by private sector.</td>
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<td>(iii) Private sector and NGO staff qualified and trained to deliver training modules</td>
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<tr>
<td>Component 3</td>
<td>100% contracting out of minor works by December 31, 2002.</td>
<td>KCC annual performance audit report</td>
<td>KCC’s commitment to sustained efforts at improving program management and delivery capacity.</td>
</tr>
<tr>
<td>(i) Contracts for minor works in road maintenance, drainage, buildings, parks, street lights and traffic signals</td>
<td>Improved effluent and groundwater quality; 60% of refuse collection and disposal contracted out; Efficient maintenance of 23 anti-malarial drains outside the CBD by contracting out 100% maintenance activities.</td>
<td></td>
<td>Adequate and competent staff base in KCC.</td>
</tr>
<tr>
<td>(ii) (a) Mpererwe landfill improvement (b) privatization of refuse collection and disposal (c) Outside CBD drainage improvement</td>
<td>Realistic budget projects; Improved quality of audits; Increased revenue collection.</td>
<td></td>
<td>KCC’s adoption of a rationalized revenue mobilization strategy and prioritized expenditure framework.</td>
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<tr>
<td>(iii) (a) manual and progressively computerized financial management and information systems (b) broader revenue base</td>
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<td>(iv) Consultancy for technical assistance provision</td>
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</tbody>
</table>
| **Component 4**<br>
(i) (a) Modified Operational Manual setting out requirements, rules of eligibility and procedures to access the LDG; (b) Training district/municipal resource pool and mentoring lower level LGs; (c) Bi-annual LGs performance assessment reports; (d) Mid-term project review and evaluation report; (e) Audited books of accounts for LGs.<br>
(ii) Project M&E system installed and operational and generating lessons from LGDP and DDP Pilot<br>
(iii) Documentation and appraisal of National LGDP | Procedures, arrangements and model documents and guidelines that are fully demonstrated to be ready for replication in all LGs.<br>
LGDP implemented on schedule and within budget at progress reporting milestones and objectives achieved.<br>
Lessons learned from LGDP fully integrated in national policy formulation and in the design of the National LGDP. | Assessment/evaluation reports | Meeting accountability requirements of MoLG and LGs. |
| **Project Components / Sub-components:** | | | |
| **Component 1:** Supporting and operationalizing the roles of the Ministry of Local Government and the Local Government Finance Commission under the Government’s decentralization policy. Sub-components are:<br>
A. (i) Capacity building of MoLG staff and retooling of its facilities; (ii) Mentoring of LGs; (iii) Compliance supervision; (iv) Monitoring and evaluation; (v) Advocacy of/for LGs; and (vi) Information Communication System to allow timely and effective decision adjustments.<br>
B. (i) Local Government Tax and Revenue Sharing Study and establishment and operationalizing M&E of the LG revenue system; (ii) Training of LGFC staff; and (iii) Additional office space and retooling. | **Component 1 Total = US$8.08 million** | Program Management Report under the new IDA LACI requirements | (from Components to Outputs) |
<p>| | | | Timely and adequate deployment of resources (including recurrent, O&amp;M) as required for MoLG functional capacity for implementation of decentralization policy. |
| | | | Existence of capable staff and consultants who are well equipped and facilitated. |
| | | | Adequate funding and personnel at center and trainable or competent staff at Local Governments. |
| | | | MoLG have the resources and logistics to carry out regular M&amp;E and can cause implementation of the findings and recommendations. |</p>
<table>
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<tbody>
<tr>
<td><strong>Component 2</strong>: Financing basic service delivery investments through conditional grants from the Central Government to the Local Governments. Sub-components are: (i) Local Development Grant (ii) Capacity Building Grant</td>
<td><strong>Component 2 Total = US$52.34 million</strong></td>
<td></td>
<td>A council which consults with the population and has the necessary resources for O&amp;M for community and LG investments. Willingness of the community to participate and contribute towards the investment cost. Existence of trainable staff at the LG level.</td>
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<tr>
<td><strong>Component 3</strong>: Providing support to the Kampala City Council’s Strategic Framework for Reform Program. Sub-components include: (i) contracting out and privatization of basic service delivery functions; (ii) provide financing support for key prioritized requirements such as improvements and extensions to the landfill site, management and operations of the landfill site, contracting out of refuse collection and transportation, and rehabilitation and maintenance of anti-malarial drains outside the CBD area.; and (iii) institute measures to improve program and financial management performance and revenue enhancement; and, (iv) provide technical assistance.</td>
<td><strong>Component 3 Total = US$16.67 million</strong></td>
<td></td>
<td>Adherence to the principles and modalities of the SFR implementation plan.</td>
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<tr>
<td><strong>Component 4</strong>: Supporting (i) program management, (ii) monitoring and evaluation, and (iii) future program formulation.</td>
<td><strong>Component 4 Total = US$10.84 million</strong></td>
<td></td>
<td>Adequate and timely funding for program management and administration. Adequate resources for M&amp;E activities.</td>
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Annex 2: Project Description

UGANDA: Local Government Development Program

By Component:

A. Project Component 1 - US$8.08 million (IDA US$6.4 million)

Component 1 of the project aims to support and operationalize the roles of the Ministry of Local Government and the Local Government Finance Commission’s secretariat under the Government’s decentralization policy. This component has two sub-components: These are:

A. Operationalizing MoLG’s role under decentralization; and
B. Operationalizing the LGFC secretariat’s role under decentralization

I. Sub-component A: The role of MoLG is stipulated under sections 96-100 of the LGs Act, 1997. This sub-component (IDA US$5.74 million) will support the following six activities:

(i) Capacity building and retooling of MoLG staff and facilities (IDA US$0.63 million): Under this item the constraints being faced by the MoLG and currently limiting its capability to perform its mandated functions under decentralized governance will be addressed. Activities under this item include:

• Recruitment to fill the vacant posts by MoLG and the Public Service Commission as a normal government recruitment process.
• Short-term tailor made courses for MoLG staff, and on-the-job training through direct involvement in the implementation of LGDP. Appropriate training manuals, guides and handouts will be developed to address each skill enhancement need. During the first year a consultant will be engaged to carry out a detailed assessment of the training needs of the MoLG linking such training to the gaps and the statutory mandate of the ministry. A detailed training program will then be developed for the MoLG staff.
• Retooling in the areas of logistical support and office equipment.
• Purchase of additional office furniture.

(ii) Mentoring of Local Governments (IDA US$2.01 million): Under this item, MoLG will mentor Local Governments in the fields which are considered crucial for improved performances of Local Governments. At the moment the following areas have either no guides/manuals or the existing ones are in variance with the provisions of the Constitution and the Local Governments Act, 1997. These areas are:

• Legal and policy issues relating to Local Governments
• Local Governments Financial Management, Budgeting and Auditing
• Revising the Local Government Tender Board Regulations
• Creation, Demarcation and Grading Local Governments
• Regulations and Remuneration rates for Local Governments
• Local Government Structures
• Local Governments Reporting requirements
• Roles and Responsibilities of Local Government Statutory Bodies
• Human Resource Management by Local Governments
• Local Governments Planning manuals
• Local Governments Guidelines for procuring consultancy services
• Guidelines for Urban Planning, Development and Management

Activities under this item will involve the review of existing manuals, guides and materials developed for use by Local Governments on the above themes. The relevance and gaps of the various materials will be
identified and appropriate training and communication materials will be developed by a team of consultants for application by MoLG during its mentoring activity to Local Governments.

(iii) Compliance supervision (IDA US$1.01 million): This will involve the development, by a consultant, of a Local Governments Inspection Manual which will include Local Governments performance indicators. It will also include routine inspection and supervision. The Inspection Manual will provide the basis for a standardized approach to the Local Governments inspection exercise with spelt out responsibilities of the Local Government Administration and Inspection Department of MoLG. It will also ensure that responsibilities are communicated in a way that Local Governments fully understand. The Manual will also contain standard sets of indicators, inspection procedures and formats for reporting inspection results as a measure to ensure inspection by MoLG is carried out in a consistent and systematic manner.

The activities will include the review of existing relevant document; consultation with stakeholders; analysis of information collected; and preparing a draft inspection manual whose content should include broad areas of responsibility for inspection; a set of compliance indicators for each of the broad areas; procedure for scoring performances of Local Governments; and methodology and procedures for undertaking the inspection. The draft manual will be pre-tested to determine its suitability and at the same time circulated to other stakeholders for comments. MoLG will publish the approved manual and issue them to Local Governments. The MoLG staff will then be trained how to use the manual after which the MoLG will organize workshops for District and Municipal Local Governments to internalize and operationalize the manual with respect to their inspection roles and mandates to lower level Local Governments. The MoLG will also carry out quarterly compliance supervision per region using an inspection team from the Local Government Administration and Inspection Department of the MoLG and produce inspection reports. The report findings and recommendations will then disseminated in Regional workshops each attended by 300 participants from the District and Municipal LGs.

(iv) Monitoring and Evaluation (IDA US$1.00 million): This will involve the monitoring of the performances of Local Governments by MoLG. In order to realize this, the activities under this item will include the development, by a consultant, of a comprehensive M&E manual for Local Governments. The manual will address the M&E needs of both the MoLG and those of District and Municipal Local Governments to the lower Local Governments. The task for implementation of this activity will include the review of existing practices and procedures in use by MoLG and Local Governments in monitoring and evaluating the performances of Local Governments. The M&E gaps and needs of MoLG will be assessed in light of its legal mandate. A draft M&E manual including an M&E checklist and scoring system will be developed and produced through a consultative process with stakeholders, pre-tested and copies of the approved M&E manual will be produced by MoLG and issued to districts and Municipal Local Governments. The MoLG staff will then be trained on how to use the manual after which the MoLG will organize workshops to be attended by 600 heads of departments from District and Municipal LGs to internalize and operationalize the manual with respect to their M&E roles and mandates to lower level Local Governments.

In this context it should be noted that compliance verification and M&E functions are a logical extension of the “pre-qualification” of local governments for participation. Thus, there is a consistent “quality control” dimension of the project from inception throughout its life, and this dimension will be institutionalized into the government system that is evolving over time.

(v) Advocacy of/for Local Governments (IDA US$0.64 million), including inputs to support a proactive role by the Local Authorities Association of Uganda and the Urban Authorities Association of Uganda: This will include:

- Amending the Property Rates Decree, 1979 and the Town and Country Planning Act;
- Coordinating, through net working between center-center, center-local, and local-local agencies in areas of donor support to Local Governments, technical support to Local Governments by line ministries, and policy consultation with Local Governments; and
Coordinating the development of national service delivery standards by line ministries for Local Governments to comply with.

The Property Rates Decree 1979 and the Town and Country Planning Act are both out of date. Their existence is adversely affecting revenue mobilization of Urban Local Governments. There is need therefore to bring both laws in line with the provision of the Constitution and the Local Governments Act, 1997. The MoLG will facilitate under LGDP the Ministry responsible for Lands to procure consultancy services to prepare the draft amendments to the legislations through a consultative process and review. The drafts will be sent to the Solicitor General for drafting into bills. The bills will then be sent to the Cabinet for approval and thereafter discussed by Parliament and enacted into laws.

Coordinating donor support to Local Governments will involve the creation of a task force by MoLG to review existing modus operandi of donors in Local Governments. It will also review existing laws and regulations regarding Local Governments operations. The task force will then produce a draft harmonized procedures and guidelines for donors’ operations in/with Local Governments. The draft will be reviewed by stakeholders including donors in a stakeholders’ workshop. MoLG will then produce copies of the approved guidelines and distribute to Local Governments. The MoLG will organize workshops to be attended by 600 persons from District and Municipal Local Governments to internalize and operationalize the provisions of the guidelines.

Advocacy for Technical support from line Ministries to Local Governments will be done mainly through workshops for technical staff of line ministries to sensitize them on the importance of line ministries providing technical support to Local Governments. The workshops will be organized through a task force. The first output of the task force will be to determine appropriate workshop themes, appropriate participants from line ministries, and production of workshop materials. The first seven line ministries to be targeted for these workshops are the Ministry of Finance, Planning and Economic Development and the Ministry of Gender, Labor and Social Development; and the five line ministries responsible for National Priority Program Areas (Education, Health, Roads, Water, and Agriculture).

(vi) Information Communication System to allow timely and effective decision adjustments (IDA US$0.46 million): An information communication system is required to enable all decentralization stakeholders to access accurate and reliable data and/or information easily and quickly. This will involve the establishment of a computerized database at the MoLG Resource Center and providing computers at the District and Municipal Local Government levels, which will be linked to the MoLG database. To achieve this, the following will have to be accomplished by MoLG with inputs from competent consultants/firms.

- Design and development of data collection formats (manual);
- Acquisition of 60 suitable IT hardware and its application software;
- Installation of data communication networks;
- Design and development of databases;
- Training of a total of 250 MoLG & Local Governments staff personnel in the utilization of the equipment; and
- Maintenance of the IT hardware.

Information from lower level Local Governments is to be collected by the higher level Local Governments and remitted to MoLG for easy storage and retrieval, preferably in electronic form.

It should be noted here that many agencies, not just MoLG, will be involved in the collection of data on local government status and activities. MoLG may end up being the repository and/or coordinator of a local government information system, but it will not be the only contributor or the only user.
II. Sub-component B: This sub-component (IDA US$0.65 million) will provide support to the Local Government Finance Commission’s secretariat in its policy advice capacity and thereby enable it to operationalize its role under the Government’s decentralization policy. The Local Government Finance Commission is gradually assuming the critical role assigned to it by the Constitution, 1995 and the Local Governments Act, 1997. LGFC has completed a staffing plan and made an assessment of space and equipment requirements. LGFC is also in the process of establishing an advisory panel to help prioritize its activities. The full set of LGFC activities supported by the project will evolve as this advisory panel helps LGFC to finalize its work plan and as the scope and volume of support for LGFC from other donors and international agencies is clarified. However, a number of LGFC activities and studies have already been identified as priorities and will be supported under the project. LGDP will also provide resources to help equip the LGFC and to train its staff. In the meantime, therefore, the project will support the following:

(i) Local Government Tax Study and establishment and operationalizing monitoring and evaluation of the local government revenue system;
(ii) Training of LGFC staff; and
(iii) Additional office space and retooling.

(i) LG Tax Study (IDA US$0.29 million): The Commission with inputs from consultants will conduct a major revenue enhancement study with three components. The first will review the present legal framework with particular reference to property tax and GPT, the second will advise on the institutionalization of local government revenue collection and the third will establish a monitoring and evaluation system of local revenue within the Commission. The three components of the study will involve collection of data, production of reports and review by stakeholders both at the technical and political levels. Workshops and seminars will be organized at district headquarters to be attended by Sub-county Chiefs; all LG Chairpersons, Chief Accounting Officers, Town Clerks, Chief Financial Officers, Secretaries for Finance, Speakers, etc., a total of 1,575 participants.

(ii) Training of LGFC Staff (IDA US$0.19 million): To build the capacity of the Commission in order to perform its roles, a number of its staff will be trained both in the country and through short-term courses abroad.

(iii) Additional Office Space and Retooling (IDA US$0.16 million): The Commission has completed its staffing plan. This has created additional demands for office space and equipment for the Commission which will be provided.

B. Project Component 2 - US$52.34 million (IDA US$47.12 million)

Component 2 will provide financing which will be extended under LGDP as development block grants from the Central Government to Local Governments for provision of their mandated services as prescribed under the Second Schedule (Parts 2-5) of the Local Governments Act, 1997. This financing will be provided through the Government’s current budgetary system of inter-governmental fiscal transfers. IDA funds will be made available to the Ministry of Finance, Planning and Economic Development which will then direct these to the Local Governments under a system of performance monitoring and certification by the MoLG. This component will help define, test and refine the proposed demand-driven processes of planning, delivery and management of infrastructure and other public services at the various levels of local government—district, sub county, municipal, division, and town councils and parishes. The component will also test various approaches through which national policy on private sector tendering and contracting can be reviewed and refined.

Two investment vehicles are available to Local Governments under Component 2, namely:
(a) Local Development Grant to finance physical investments under the Second Schedule (Parts 2–5) of the Local Governments Act, 1997; and the
(b) Capacity Building Grant to finance capacity building activities in the Local Governments.

(a) Local Development Grant: Resources for physical investments will be provided under the project as development block grants from the Central Government to Local Governments for provision of their mandated services as prescribed under the Second Schedule (Parts 2–5) of the Local Governments Act, 1997. However, a limitation will be placed on the scale of individual investments in water supply, given that larger water sector strategy issues are yet to be agreed upon between the Government and IDA. Therefore, large water supply investments will not be eligible for financing. All tiers of Local Governments are eligible for accessing the resources under this component. However, access to these funds will be limited to only those LGs, which have met a set of minimum institutional, financial and operational requirements. The minimum requirements are largely drawn from the provisions of the Local Governments Act, 1997 and the Local Government Financial and Accounting Regulations, 1998. A full description of the minimum conditions for accessing LGDG-I is contained in the Operational Manual for LGDP - Annex III to the PIP (see Documents in the Project File, i.e. Annex 8 to this PAD, also see Table 3-1 of the PIP). Special attention will be given to tendering and contracting procedures whereby the capacity of local contractors and suppliers will be enhanced during the implementation of LGDP.

Component 2 will involve the transfer of development grants on a quarterly basis to LGs, which have met the access requirements. A per capita ceiling\(^6\) has been established to provide the necessary budgetary constraints

\(^5\) The following will apply to investments in the water sector to be financed under LGDP: (i) Water supply investments will be limited to point sources such as, springs, wells, tertiary networks, standposts, etc. A simple appraisal manual for piped systems under the form of a check list (cost of the sub-project, O&M arrangement and cost, number of clients and expected revenues) has been developed and will be used. The appraisal manual will ensure that all water supply sub-projects which would draw on waters from the river Nile or its tributaries are ineligible for financing under the LGDP. This will ensure that OP 7.50 will not apply to LGDP and that there would, therefore, be no need to notify the riparians of the Nile (or Lake Victoria) of the proposed operation. Requests for water supply systems for the first year of the project from the 12 qualifying districts total about US$800,000. Only financing for point water supplies has been requested so far with most of the sub-projects being costed below US$10,000. There is a requirement for a 10% upfront cash contribution by the community/LGs which plays the role of "regulator" of the design and scale of the sub-projects. (ii) For those investments above US$15,000 prior IDA review and approval would be sought. (iii) The investments would comply with the Directorate of Water Development's standards and certification and compliance supervision would be done by the directorate. On sanitation issues, health inspectors in the LGs would be responsible for compliance supervision and representatives from the Sanitation Committee in the Ministry of Health would certify that the investments comply with the national health and sanitation standards. (iv) The issue of ownership of water supply systems financed by LGDP, either in towns served by the National Water and Sewerage Corporation which is currently the owner of the facilities, or by the Water User Associations, currently owned by the Central Government, needs to be addressed as part of the Water Supply and Sanitation Policy Framework. Therefore, detailed documentation regarding costs, O&M arrangements, etc. for all water supply investments under LGDP would be kept to facilitate transfer of the facilities once the ownership issue is resolved. (v) The restrictions in terms of financing only point sources under US$15,000 would apply for the first two fiscal years of LGDP (i.e. FY2000 and 2001, a period of 18 months) by which time it is anticipated that agreement would be reached on the policy framework for an overall national water supply and sanitation strategy.

\(^6\) The per capita levels of investment for the LGs were established after making an assessment of their recent capital expenditure performance. This involved looking at their recent years' budgets and doing a final accounting to determine their previous capital expenditures from locally generated revenues. It was assumed that 50% of this amount could be used as their 10% contribution as leverage for the grant from LGDP. The amounts among Districts ranged considerably, but, on average the amounts were determined as follows: (i) Municipal Councils - US$4–6/capita; (ii) District Councils - US$1–3/capita. For LGDP, it was decided to start at per capita levels that the Districts and Municipalities could cope with easily and then raise it over time (see Table 3.14 of the PIP for details). For instance, the UNCDF-financed DDP-Pilot's per capita investment levels for the five districts under the project are US$1.0 for the first year, US$1.2 in the second year and US$1.5 in the third year.
under which LGs have to do their planning. The projects prioritized by LGs for funding from Component 2 will be co-financed 90% by IDA (US$47.1 million) and 10% by the LGs and beneficiary communities (US$5.2).

The total IDA budget allocation for Component 2 is US$47.1 million of which the LDG is US$39.45 million (excluding contingencies of US$3.5 million). Given their capacity constraints LGs may use up to 15% of the budget for investment service costs such as preparation of designs, tender documents and construction supervision. LGs may also allocate up to 10% of their budget allocation to support Economic Infrastructure projects. These are initiatives in which the LGs provide incentives to attract private sector financing and operation of infrastructure for the delivery of public services for which user charges can easily be levied and collected. The intent is to enter into agreements with private sector firms to design, build, and operate infrastructure facilities under the Second Schedule of the LGs Act 1997.

An assessment was carried out in August 1999 to determine which Districts would meet the minimum requirements for access to the LDG in the first year of the project, assuming a credit effectiveness date of January 1, 2000. The project design incorporates bi-annual assessments as follows: (i) One is an assessment which would be conducted at the end of each financial year (May/June of every year) to determine: (a) whether those sets of Local Governments which had qualified and receiving development and capacity building grants under the project are continuing to meet the minimum requirements; (b) whether those Local Governments which had not met the minimum requirements in the first year assessment have effectively used the Capacity Building Grant and have the requisite capacity to access the development grant under the project; and (c) the performances of those local governments under (a) above with respect to the provision of the laws and regulations governing the operations of Local Governments. (ii) In addition to this annual assessment there would be a mid-term monitoring and evaluation assessment in the middle of every financial year (November/December of every year). As part of the performance evaluation system, incentives and penalties would be applied wherein those Local Governments that perform adequately would be rewarded with access to 20% additional funds in the next year and those who do not perform well would have their allocation reduced by 20%. The performance measures are contained in the Operational Manual which is Annex III of the PIP (see Documents in the Project File, Annex 8 to this PAD).

Eligible LGs under LGDP are as follows:

(i) Kampala City Council: As an exception, the development financing requirements of Kampala City Council (including its five Divisions), the most economically significant Local Government in the country, will be catered for separately under Component 3. KCC will, therefore, be eligible only for investments at the parish level for a total of US$3.5 million from IDA over the project period. Thus, Component 2 will avail development funds to the parish level in KCC for the implementation of parish level Structure Plans. For all of the parishes in each Division to benefit they have to have certain requirements in place (see Table 3-2 and 3-3 of PIP).

(ii) All Other 13 Municipalities in the Country: The four municipalities of Fort Portal, Lira, Masaka and Mbale which benefited from the pilot micro projects program and other technical assistance during the preparatory phase of LGDP as well as Jinja municipality for which a detailed Jinja Urban Study was carried out under the First Urban Project will benefit from community, division and municipal level investments to be financed from Component 2. The total allocation from IDA for these 5 municipalities is US$4.0 million (see Table 3-3 of PIP).

The eight municipalities to benefit from community level investments for the first two years of LGDP implementation and division and municipal level investments in the third year are Arua, Gulu, Kabale, Mbarara, Moroto, Entebbe, Soroti, and Tororo. The total allocation from IDA for these 8 municipalities is US$2.7 million (see Table 3-3 of PIP).
(iii) Eligible Districts: Those 14 districts that are presently benefiting from integrated development programs such as the UNCDF financed DDP-Pilot, and those district development programs supported by DANIDA, the Netherlands Government, IFAD/BSF, Irish Aid, the Austrian Government and the Belgian Government will not be included under LGDP. Therefore, there are 30 eligible districts (excluding Kampala City Council for reasons enumerated under (i) above) which will be eligible under LGDP (see Table 3-4 in the PIP).

Twelve districts have met the prescribed accessibility criteria and will be supported in FY2000. By the third year of the project all 30 districts should be qualified to receive the LDG. The sub-counties within each eligible district must also demonstrate compliance with the minimum access conditions in order to access the funds. The total allocation from IDA for these 30 districts is US$28.37 million.

Each district allocation shall be shared between the district and sub-counties in the ratio of 35%:65% respectively. The 65% share for sub-counties within the district shall be shared based on 85% population and 15% area of the sub-county.

(iv) A total of US$0.93 million has been earmarked for Town Councils as Local Development Grants. In year 1, qualifying Town Councils will receive the LDG at a per capita investment of US$0.75. This will be increased to US$1.5 and US$2.0 in years 2 and 3 respectively provided minimum requirements are being met and maintained. Those Town Councils which would have failed to meet the minimum access criteria will be allowed to access the Capacity Building Grant in order to build up their necessary capacity for improved service delivery.

(b) Capacity Building Grant: Resources for capacity building activities will be provided to Local Governments on a demand-driven basis to enable them to meet their statutory roles and responsibilities. LGs, through their annual planning and budgeting cycles, will identify capacity gaps and map out strategies for addressing the gaps. The strategies will be in the form of specific and budgeted activities/schedules against which the CBG will be triggered. The CBG will, therefore, enable those LGs which did not qualify for the LDG in the first year of the project to build up their capacity and attain the minimum standards required to access the LDG in the subsequent years. The total CBG allocation from IDA for the districts and town councils is US$4.17 million.

(i) The CBG shall be transferred to all those LGs, which have met the minimum access requirements in FY2000 and are receiving the Local Development Grant. The total amount of CBG for the qualifying LGs (12 districts and 7 town councils) is about US$3.57 million from IDA. The CBG will be disbursed directly to the LGs so as to allow them to use the funds to address their specific needs, which may differ from one LG to another. The capacity building grant will be availed at 20%, 10% and 5% of the LDG for each local government for the three fiscal years (FY2002-02) respectively. An LG may use up to 20% of the CBG for retooling purposes, such as purchase of filing cabinets, computers, adding machines for accounts department, etc.

(ii) Those LGs that do not qualify in the first year of the project (18 districts and 10 town councils) will also be eligible to receive the CBG which will facilitate them to build their capacity and be eligible to access the LDG in the subsequent years. The total amount of CBG for the non-qualifying LGs is about US$0.61 million from IDA.

C. Project Component 3 - US$16.67 million (IDA US$15.0 million)

Component 3 will provide support to the Kampala City Council for testing alternative basic service delivery mechanisms. One of the key elements of KCC’s Strategic Framework for Reform program is contracting out of KCC’s key functions in both service delivery and management in order to achieve optimum levels of service delivery both with respect to better quality of services and higher coverage. Component 3 will, therefore, further support KCC’s initiatives in this regard by providing resources to:
(i) Test alternative basic service delivery mechanisms which include: (a) contracting out and privatization of basic service delivery functions such as minor (routine) works in the Divisions; and (b) financing and management of key prioritized infrastructure requirements such as improvements and extensions to the Mpererwe landfill site; providing financing for the management and operations of the landfill site; and financing the contracting out of refuse collection and transportation to address in part the critical issue of solid waste management in the city, and rehabilitation and maintenance of tertiary, secondary and primary anti-malarial drains outside the Central Business District area.

(ii) Institute measures to improve KCC’s: (a) program and financial management performance, and (b) enhance its revenue mobilization efforts/performance; and

(iii) Provide (a) technical assistance and (b) support institutional development and capacity building.

(i) (a) Contracting out/privatizing basic service delivery functions such as minor (routine) works (IDA US$5.86 million): This involves contracting out and/or privatizing service delivery activities to the private sector especially for minor (routine) works. This was assessed as the best approach to improve service delivery efficiency and effectiveness. Divisions under KCC have expressed their inability to contract out many of their services due to financial constraints. Under the First Urban Project, some monies have been made available to each Division to kick-start these efforts. Divisions are required to show commitment and progress in this area together with a clear strategy of revenue enhancement before they can access this type of financial support. It is expected that the Divisions will be able to raise enough revenue to meet their recurrent expenditures by the year 2001. The intention of this initiative is to support reforms at the Division level in the interim. Most of the priority routine and periodic operations that are proposed for immediate contracting out/privatization are highly conspicuous in the eyes of the public, and they are among the key areas of public concern. The new approach to service delivery will improve on the cost effectiveness and quality of service delivery, since contractors will have to compete favorably and perform efficiently in order to stay in business. KCC will concentrate its efforts on planning, specification, supervision and monitoring to ensure quality service delivery and adequate coverage. The minor (routine) works to be contracted out are:

- Roads section: Re-graveling; Grading; Patching; Repair of road signs and markings;
- Drainage section: Clean drains; Desilt roads; Manhole covers; Desilt open channels; Install culverts;
- Refuse section: Repair of skips; Refuse collection/transportation; Landfill Management;
- Electrical section: Street lights maintenance; Traffic signals maintenance;
- Building section: Repair offices, clinics, schools;
- Parks section: Grass cutting; Tree cutting; Gardening; Sweeping

(i) (b) Financing and management of key prioritized requirements (IDA US$5.70 million): This would involve:

- Improvements and extensions to the Mpererwe landfill site;
- Providing financing for the management and operations of the landfill site (KCC has already contracted out the management and operations of this site to a private firm);
- Financing the contracting out of refuse collection and transportation; and
- Rehabilitation and maintenance of tertiary, secondary and primary anti-malarial drains outside the Central Business District area.

Mpererwe Landfill Site (IDA US$0.37 million): Currently, KCC has one landfill site at Mpererwe (north of Kampala). The site was developed in phases, with the current receiving area comprising phase 1. The receiving area is expected to fill up by the end of year 2000. The site, however, lacks a suitable leachate treatment facility, the existing facility having failed to operate satisfactorily, and KCC plans to pump and re-circulate the leachate as a temporary measure. Design work for a remedial leachate treatment facility and the landfill extension has started. KCC has already acquired additional land for extension of the landfill site. The
civil works for the extended landfill site and the new leachate treatment facility will be financed through LGDP.

**Landfill Management** (US$2.68 million): KCC, as an initial step, has already contracted out all daily landfill operations and management activities, as plans for privatizing the site are worked out. The first annual contract (for FY2000) is being financed through the First Urban Project. The next two annual contracts (for FY2001-02) will be financed with support from LGDP. Thereafter, KCC should be in a position to finance its landfill management contracts from its own resources, as plans for full privatization of the landfill site are finalized.

**Refuse Collection and Transportation** (IDA US$1.97 million): The SFR recommends gradual privatization of refuse collection and transportation. In the short term, KCC will identify and subsidize low-income areas by contracting out refuse collection and transportation in these areas financed by LGDP.

**Drainage Outside the Central Business District** (IDA US$0.70 million): KCC has not been able to maintain anti-malarial drains for many years. Most of the drains are greatly silted up and covered with heavy vegetative growth. Flooding in low-lying areas of the city during the rainy season is very common. In the crowded slum areas of Bwaise, Ndeeba, Ntateete, Katwe, Kisenyi, Kalerwe, Katanga, etc. the drains are utilized as disposal grounds for garbage and human excreta. Consequently, these areas suffer the highest incidences of communicable diseases. Open channels in other parts of the city that are essential to the overall drainage of the city also require serious attention. A community participation strategy will be used for improvement of tertiary drains (the ones near people’s homes) to ensure “ownership” by the community. Dredging of larger, primary and secondary drains will be contracted out. A list of 23 priority drains outside the CBD will be dredged and cleaned using finances from LGDP (see Table 3-6 in the PIP).

(ii) (a) **Improve KCC’s operational and financial management performance** (IDA US$0.50 million): This area centers on the improvement of information technology, and the setting up of systems relevant to ensure proper financial management, and management information systems essential for strategic planning of operations, and monitoring and impact evaluation. The following activities will be undertaken:

**Computerization and Development of Management Tools:** Computerization of KCC will enable ready availability of quality management information; simplified and speedy monitoring control; effective revenue collection and expenditure control; improved cashflows; and improved operational management leading to timely and efficient service delivery. An IT strategy will be defined that will, among other things, specify hardware and software requirements for the organization, including the establishment of a local computer network connecting all the five administrative Divisions and Headquarters. LGDP will finance this IT strategy and the necessary hardware, software and installation of equipment.

**Data Collection:** The availability of data is necessary for planning and decision making. KCC intends to set up and/or update databases for its operations. This will include the taxpayer register, property register, land use database, road register, etc. These databases will form the core of the information and management systems, such as GIS, and a Maintenance Management System. This activity will include initial data collection, data entry, data analysis and reporting for the first two years to last up to the year 2002.

(ii) (b) **Enhance KCC’s revenue mobilization efforts/performance** (IDA US$1.61 million): KCC has embarked on a program for revenue enhancement to be conducted in three phases as follows:

**Phase 1** includes the following activities:
- **Improving current revenue collection:** This will entail a restructuring of “collection privatization” contracts, involving Village Councils in bill distribution, collection and enforcement, design of proper incentive systems for revenue sharing with Village Councils, taxpayer education programs and implementation of a set of sanctions and penalties.
• Building of a fiscal cadastre in two pilot sites: The activities involved in building a fiscal cadastre include designing data management systems, mobilizing data collection teams, collecting and managing the data in the two pilot sites and linking the rates data collection exercise to other revenues like licenses and ground rent.

• Exploring 'mass valuation': Mass valuation exploration will follow by ascertaining the applicability of mass valuation in the Kampala context, using computer assisted mass appraisal techniques to develop practical valuation models using the pilot project data and providing simulation results as input for subsequent rates reform in Kampala.

Phase 2 of the exercise has not yet been designed in full detail but will follow Phase 1 and comprise:

- implementation of revised tax collection procedures;
- design and implementation of a “rates administration management system”;
- construction of a complete fiscal cadastre for Kampala;
- conducting a “mass valuation” for Kampala City Council; and
- revision of national and local property tax legal regulation and procedures.

Phase 3: While Phases 1 and 2 target revenue to be generated from property tax (rates), Phase 3 will focus on all other revenues of KCC. The activities under this phase will include:

- license revenue review and coding;
- market stall census, appraisal and valuation;
- graduated taxpayer identification and training of assessors;
- ground rent updating;
- data base building from all sources of revenue and computerization; and
- human resource development.

Phases 1 and 2 are to be completed by October 2001 and Phase 3 will carry on till June 2003. Part of Phase 2 activities and all of Phase 3 will be covered under LGDP. The total budget for Phases 1 to 3 is US$3.0 million of which the First Urban Project and Nakivubo Channel Rehabilitation Project will finance US$1.5 million for Phase 1 and part of Phase 2. The balance of US$ 1.5 million will be covered under LGDP.

(iii) (a) Provide Technical Assistance (IDA US$0.47 million): Technical assistance is needed to support KCC in implementing its SFR. A partnership and technical co-operation arrangement between KCC and the Kirklees Metropolitan Council (KMC) of the U.K. has been going on for the past 2 years which is providing much needed assistance to KCC in implementing its reform program. LGDP will continue financing this technical assistance. KMC will assist KCC in specialized areas where KCC lacks internal capacity, such as engineering, financial management, management information systems and organizational reforms.

(iii) (b) Support Institutional Development and Capacity Building (IDA US$0.85 million): This will include the following:

Staff Training and Development to Improve Performance: KCC is undergoing a series of reforms as part of its SFR program. After restructuring of its organizational set-up, KCC intends to develop strong divisional based management teams to manage the delivery of services at the division level. Some staff are to remain at the center to take charge of the centralized functions, as defined in the Local Governments Act, 1997. The KCC Core Team will take the lead in developing the capacities of the divisional staff by working with them in the implementation process of the special projects like the Nakivubo Channel Rehabilitation Project, the Mpererwe Landfill Site remedial works, contracts for minor routine works, parish level investments and other initiatives. The divisional staff together with those at the headquarters will be exposed to improved methods of service delivery through attachment to Kirklees on specific programs, which will be beneficial to the implementation of the SFR program. Short courses particularly in design, documentation, management and
supervision of contracts will be sought for selected staff members. A similar arrangement will be sought for the KCC Core Team for specific programs, which are relevant in enhancing their skills.

Councilor Training: Councilor training will be in the form of exposure tours to KMC and other local authorities that have a reputation in good practice. 80% of the training cost shall be met through the First Urban Project and the Nakivubo Channel Rehabilitation Project, and the remaining 20% through LGDP.

Provision of Necessary Institutional Hardware: This will include provision of necessary institutional hardware to include office space such as new divisional headquarters for the Lubaga Division, office furniture, communication facilities, and power backup equipment.

Project Component 4 - US$10.84 million (IDA US$10.44 million)

Component 4 encompasses the management activities associated with the implementation of LGDP. The component will, therefore, support program management, monitoring and evaluation and future program formulation. Given that LGDP is a pilot initiative, there is need to carefully monitor its implementation and capture both successes and shortcomings. Component 4 will provide for careful monitoring of progress of the decentralization activities undertaken, which should result in an understanding of what works and what does not. Such knowledge is critical if the project is to move from simpler reforms to more complex ones, and if successes from pilot efforts are to be “scaled-up” and applied to an expanded number of Local Governments. A mid-term review of the project will be conducted in order to determine the way forward in terms of whether to scale up or not based upon evidence from experience on the ground. The three main activities envisaged under this component are:

(i) Program Management,
(ii) Monitoring and Evaluation, and
(iii) Future Program Formulation.

(i) Program Management (IDA US$5.96 million): LGDP will provide financing towards office and administrative expenses for the Program Management Unit in the MoLG which will be responsible for the day-to-day management of the implementation activities. The LGDP will also provide resources to augment the MoLG’s capacity by means of short-term consultancy input as and when necessary especially for specialized tasks particularly in reconciling various government policy documents. In addition to providing management and administrative input, the PMU will be responsible for refining the procedures for implementation and, where necessary, developing and testing new procedures for implementation especially with regard to Component 2.

(ii) Monitoring and Evaluation (IDA US$3.49 million): LGDP will test and refine the procedures for allocation of resources to Local Governments for improvement of basic service delivery functions. Monitoring and evaluation activities will be undertaken by the various levels of Local Governments (e.g., Districts, Municipalities, Sub-counties, Divisions) appropriate to a particular investment or sub-project. Overall M&E would be consolidated by an MoLG team. The establishment and implementation of a comprehensive M&E system for the project will be essential to ensure that the lessons from LGDP are captured and utilized either for the design of a scaled up national program, if the decision is made to proceed in this manner or making alternative choices in terms of how decentralization should be implemented or whether the capacity exists to implement the statutory obligations of decentralization within the various levels of government. The UNCDF DDP - Pilot M&E has already been adapted for the purposes of M&E in LGDP and an M&E framework has been developed. The lessons to be learned are multifaceted and will encompass such questions as whether:

- the fundamental engineering and technical design parameters are appropriate and sustainable;
• the implementation procedures adopted are functioning in an efficient and effective manner;
• the investments are being implemented in a timely and cost-effective manner to acceptable standards and are functioning in a demand-responsive way; and
• the project is contributing to the achievement of the national development goals of the Government, in particular, economic growth and poverty reduction.

One of the key elements of the M&E system is the annual audit of the accounts of the Local Governments by the Office of the Auditor General for which a budgetary provision has been made under this sub-component.

(iii) Future Program Formulation (IDA US$0.95 million): Based upon the implementation experience of LGDP and the UNCDF DDP - Pilot, if the decision is made to proceed to scale up these operations at the national level then resources available under this sub-component of LGDP could be used for the preparation of the future national level program. It is anticipated that the preparation of the documentation for the national program will start after the mid-term project review report in the middle of the third year (May/June 2002). Lessons emanating from the review will be used to design the national program.
### Annex 3: Estimated Project Costs

**UGANDA: Local Government Development Program**

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<tr>
<th>Project Cost By Component</th>
<th>Local US$ million</th>
<th>Foreign US$ million</th>
<th>Total US$ million</th>
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<td><strong>Total Project Costs</strong></td>
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<td>89.9</td>
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<tr>
<td><strong>Total Financing Required</strong></td>
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<td>32.0</td>
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Annex 4: Economic Justification Summary

UGANDA: Local Government Development Program

1. The project is not a traditional investment project; rather, it involves testing and replicating a system for participatory, demand-driven investment allocation, planning, implementation and maintenance of investments in support of the decentralization process. The investment composition therefore, cannot be determined a priori. The justification of LGDP must be conceived in terms of the validity and effectiveness of the decentralization setup to prioritize, select and implement sub-projects and put in place a well conceived M&E system. A methodology to prioritize and qualify sub-projects has been designed, tested and is fully functional. This was developed during the LGDP preparatory phase for the micro projects program in four pilot municipalities (see the Draft Operational Manual, Annex III to the PIP in the Documents in the Project File [Annex 8 to this PAD] for further details).

2. LGDP, is an experimental project designed to find answers to the constitutional and legal mandates of decentralized service provision and devolution of power to the Local Governments. It is also justified on the ground of optimizing future benefits from its development grants; expected ERR estimates based on UNCDF, DANIDA and LGDP pilot experience; and searching for a viable alternative development strategy or fine tuning of the decentralization strategy itself.

3. Cost-benefit: The main expected benefits of LGDP are not easily quantifiable although they promise to be significant. Among the not easily quantifiable benefits of LGDP are the assumed benefits from decentralization such as improved governance, enhanced public trust in Local Governments, greater accountability of Local Governments to their constituents, etc. These types of benefits, are however, critical elements of LGDP; without them the potential synergistic system-wide benefits of decentralization or the expected incremental value added due to decentralization in economic terms cannot be realized.

4. Equally important not easily quantifiable benefits are the lessons of experience that will be derived from testing the fundamental assumptions of the Government’s decentralization strategy. These assumptions have their roots in the principles enshrined in the Uganda Constitution (1995) and the Local Governments Act (1997) regarding devolution of power and functions. By systematic testing of the fundamental assumptions underlying the government’s decentralization strategy by operationalizing these principles to determine how they get implemented on the ground, LGDP will provide valuable feedback to government policy makers and the development community on the viability of the decentralization strategy and its institutional arrangements; and would also suggest corrective measures to optimize the development benefit of the strategy. In addition, if the decentralization strategy proves viable as assumed at the start of the experiment, i.e., enable local people to make rational choices in a decentralized environment by selecting locally appropriate service types and levels that help improve their quality of life; and allow the public sector to take account of differences across Local Governments in public service preferences thereby improving allocative efficiency of investments, etc. Also, LGDP would have institutional and system-wide impacts on decentralized, demand-driven and participatory public service delivery as well as on local tax collection and revenue sharing between the Central Government and Local Governments. It will also set stages for practicing good governance and fiscal responsibility at local government levels.

5. With regard to quantifiable economic benefits, the recent UNCDF, DANIDA, LGDP pilot and other similar experiments in Uganda for financing small infrastructure investments identified by communities, contracted by the local government and executed by the private sector are known to yield Economic Rates of Return of above 12%. These sector analyses carried out by both central government line ministries and UNCDF, DANIDA and the PMU for the LGDP pilot indicate that typical investments by Local Governments

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7 Based on evidences from recent results of experiments financed by donors particularly, the United Nations Capital Development Fund in support of the Government’s decentralization policy.
in the sectors under the Second Schedule (Parts 2–5) of the Local Governments Act, 1997 have Social Returns on Investments (SRI) ranging from 12 percent for feeder roads to about 180 percent for safe drinking water and environmental sanitation. What is not clear however, from these experiments in Uganda and elsewhere is the incremental value added to the ERR due to project implementation under decentralized institutional conditions. One of the positive benefits of the LGDP experiment would be the contribution the experiment would make to the understanding of this fundamental issue which is, does the decentralization strategy have system-wide synergistic value to economic growth as implied by the decentralization policy under Ugandan conditions?

6. Although based on limited samples, it is evident from the results of the experiments that community identified, selected and implemented projects are demonstrated to have a positive contribution to economic growth (high ERR). The quantitative results indicated above are not ambiguous. The results indicate that under similar experimental conditions the overall economic rate of return from community generated projects can meet or surpasses minimum economic rate of returns of 12%. The risks of lower than 12% ERR from undertaking such projects can therefore be assumed to be minimal.

7. Cost-effectiveness. The LGDP process has a better chance of assuring cost-effectiveness than projects with similar objectives. Analysis of the recent UNCDF financed DDP-Pilot indicates that the overhead costs (contracting out and monitoring) is between 4% to 6% of the total cost of the project for private sector contracted projects and is between 12% to 17% of the total project cost for force account projects. The system also allows service delivery to a large number of parishes to meet basic service needs in a 3-year period, thus greatly enhancing the actual benefits and development while reducing the overheads per parish or per sub-county. The above estimates do not, however, include the Project Management Unit’s costs which due to the large number of projects will be a small percentage of the individual project costs of local level investments. In addition, the design of the system also allows frequent exchange of experience between Local Governments, plans to issue development newsletters to disseminate information on good practices and to provide incentives for timely and quality accomplishment. The monitoring and evaluation system (under Component 4) provides the basis for identifying the situations in which particular Local Governments and projects are meeting or not meeting the project requirements.

8. Fiscal Impact. The fiscal impact of LGDP represents about 3% of the national budget (1998) at peak year disbursement; and is only a small component of the national Development Expenditure. LGDP is, therefore, small enough so as not to have a significant fiscal impact at the macroeconomic level. At the local level LGDP covers 30 of the 44 districts (about 63% of the total population) in the country with an estimated population of some 14.5 million people and all the 13 municipalities and 1 city (Kampala) in the country with an estimated urban population of about 2 million (Note that according to the Local Governments Act, 1997, Kampala has the status of a city government but this status is equivalent to a district government). Beside LGDP (potentially), funds from other donors, local government revenue, and Central Government Grants (conditional and unconditional) are contributed to the overall pool of the local development grant. In addition, communities will be required to contribute about 10% of the capital costs of investments in cash or in kind to fill the resource gaps to get their priority project implemented; and, to cover operations and maintenance costs. For example, under the UNCDF financed DDP-Pilot, in Kabale district, at the parish level, communities contributed as much as 100% of the government grant. Such demonstrated community ownership of projects is also likely reduce the burden on central government finances. Further, to the extent that Component 2 of LGDP (districts and municipalities) is being financed as a grant from the Central Government to Local Governments, there is no expense for cost of recovery. At the same time the increase in economic activities from the Local Development Grant would generate tax revenues from income and other

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8 The design of the project encourages through built in incentives to invest in the five national Program Priority Areas (PPAs), namely, roads, water supply, primary education, primary health, and food security.

9 At its peak (3rd year) LGDP represents around 7% of the development expenditure. Also, at its peak disbursements LGDP represents about US$2.16 per capita (Source: Statistical Abstract, 1998).
tax bases. These additional revenues would improve the Local Governments capacity to finance other development programs and O&M. Overall, the fiscal impact of LGDP on central government finances is, therefore, small while the promised benefit is significant.

9. In addition, the level of investment has been arrived at based on absorptive capacity of the LGs and beneficiary communities. The average household per capita income of urban communities is about US$360 per annum \(^{10}\). The Willingness-to-Pay survey which was carried out in the four pilot municipalities under the LGDP preparatory phase indicated that on average households were willing to spend about 1.7% of their total household income as a contribution towards financing capital investment costs. About 5% of their income were for recurrent cost expenditures such as payment of user fees \(^{11}\). Average revenues and expenditures for the four municipalities indicate that investment expenditure is about 10% of the local total revenue realized. These figures were used to develop the budget envelope for Component 2 of the project, which reflect the absorptive capacity of the beneficiary communities and the municipalities and is similar for the Districts. Local Governments and communities will therefore choose and prioritize their investments based on the budget envelope. The envelope will be used as a planning guide for determining the level of investment. Technology choice is to be based on the budget envelope and the ability of the beneficiaries to operate and maintain the system. The 10 percent contribution towards capital investment costs is to ensure that the beneficiaries buy into and own the project. Beneficiary communities will be encouraged to open their private accounts where contributions towards capital investment and future revenues realized from the sales of services under the project will be banked. Such money could be used, for instance, for paying the O&M costs of the investments. Under LGDP, Local Governments will be encouraged to attract private sector financing to support the resource constraints currently being faced by the Local Governments.

10. **Risks:** There are obviously considerable risks associated with funding a project of this nature. Where local government is weak and local government accountability to constituents is not well developed, Local Governments may not choose appropriate projects and deliver the service efficiently. Under such circumstances, the various potential benefits of decentralization outlined above are unlikely to be realized. To mitigate these risks, the design of the project will have a well coordinated central government supervisory and support structure (MoLG); technical assistance and capacity building efforts for participating Local Governments and sensitization of communities about their rights and responsibilities under the decentralized system.

11. Specifically, in order to ensure that LGDP finances projects that yields high ERR and that are sustainable, the design of the project has adequate safeguards which enhance the benefits and minimize the risks.

- First, while LGDP does not pre-determine the Local Governments and communities choices, however, the design and execution processes and procedures of LGDP reinforce that only projects with high rates of return are eligible for financing from the Local Development Grant.
- Second, while all tiers of Local Governments are eligible for accessing local investment grants only those which meet the minimum requirements set forth in Local Governments Act (1997) and the Local Government Financial and Accounting Regulations (1998) will participate in the project.
- Third, on the demand side, the identification and selection of projects leading to their inclusion in the rolling *Three-year District Development Plan* is done with the requisite community participation both to assure *transparency and ownership* of the projects.
- Fourth, on the supply side, the projects identified and included in the rolling three-year District Development Plan will have to meet *sector specific operational standards* such as sector specific costs, minimum design standards, minimum cost recovery, etc.

\(^{10}\) Based on the National Household Surveys carried out in 1992.

- Fifth, timely monitoring of implementation of ongoing projects supported through training and capacity building will ensure adequate quality of projects.
- Sixth, there are incentives built into LGDP such that Local Governments that perform will receive additional resources in subsequent years, while those that do not will be penalized with lesser resources allocated. These incentives would make elected officials responsive to community pressures. Besides, communities will be sensitized about opportunities and their rights under LGDP.
- Finally, detailed investment planning and financial management at lower local government levels are provided.

These measures collectively would minimize potential risks of LGDP selecting and financing projects which could not achieve high Economic Rates of Return and are not sustainable.

12. **Conclusion:** The expected direct overall economic benefit from projects that meet the basic needs of people at the parish and sub-county level governments is positive and the risk of not attaining the minimum ERR of 12% is small. In addition, the project design has safeguards to assure that only priority projects with high rates of economic return are financed. Further, given the importance of the decentralization strategy to the comprehensive development of the country’s economy and the significant issues that the strategy raises about the underlying fundamental assumptions, including the assumed system-wide synergistic benefits of decentralized development strategy, the resulting benefits from improved governance, enhanced public trust in Local Governments, greater accountability of Local Governments to their constituents, etc. the project stands justified on both economic and non-economic grounds presented above.
## Annex 5: Financial Summary

**UGANDA: Local Government Development Program**

**Years Ending December 31**

(USS Millions)

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**Note:** A plan for the operational period for the project is not relevant for LGDP as:

(i) As IDA funds under Component 2 for the districts and municipalities will be disbursed as direct budgetary transfers from the central government, the investment choices that these Local Governments will make cannot, therefore, be pre-determined though they have to be included in their Three Year Development Plan. One of LGDP minimum requirements is that the Local Governments and communities have to bear the full costs and responsibility for operations and maintenance of investments financed through Component 2. Given the nature of the investments, which are likely to be fairly small, it has been estimated that about 1% of
the total LDG excluding contingencies (i.e. US$39.45), that is, US$0.39 million per year would be enough to finance operations and maintenance of all the investments under Component 2.

(ii) With regard to O&M costs for investments under Component 3 for the Kampala City Council, funds from the credit will be used primarily to finance alternative basic service delivery mechanisms. This involves giving the five divisions under KCC, funds in successive tranches from KCC head quarters, to finance the contracting out and privatization of basic service delivery functions which cannot also be pre-determined at this stage. However, the principle of O&M is the same as for Component 2 investments whereby the divisions and beneficiary communities will have to cater fully for O&M costs and responsibilities.

O&M costs for landfill management are estimated to be about US$1.44 million per year which LGDP will finance for FY2001–02 after which KCC headquarters will assume the financing responsibility. Also, contracting out refuse collection and transportation will be financed through LGDP while a holistic solid waste management strategy is finalized after which KCC’s headquarters should be able to finance this activity. In this regard, it is assumed that higher revenues will be realized after reforms are undertaken both at the organizational level and at the financial management level, particularly, with the revenue enhancement exercise under LGDP and KCC (headquarters and divisions) should therefore be able to sustainably finance its O&M responsibilities.

Main assumptions:

Accounting Responsibility

1. The Ministry of Local Government will be the main implementing agency for the project. Through its Program Management Unit, MoLG will be responsible for the day to day management of project implementation activities for Components 1, 2 and 4 of the project, including overall project planning, accounting, monitoring and reporting.

2. With respect to Component 2, the PMU’s responsibility will be that of ensuring that district transfers are made in accordance with the district workplans, and the districts will have the responsibility for ensuring that funds are used for the purposes for which they are intended. The PMU will ensure that a mechanism is in place for monitoring and evaluating the usage of those funds by the districts, including inspection and auditing district investments.

3. The responsibility for implementation of Component 3 will lie with Kampala City Council, supported by a Core Team within KCC.

Overview of Financial Management System

4. Accounting System and Procedures: The PMU in the Ministry of Local Government is currently responsible for the implementation of the UNCDF-financed DDP-Pilot, together with the pilot micro projects program financed during the preparatory phase of LGDP. The PMU has successfully been able to maintain the accounting records for these activities and also to prepare financial accounting reports on the transactions and activities under those projects. The PMU has also been responsible for processing community level investments such as those proposed under Component 2 of the project, albeit in only four pilot municipalities. Although the procedures for disbursing and accounting for funds disbursed during this pilot phase are documented, the PMU does not have a manual that describes the accounting system and procedures in use for the accounting department as a whole.

5. A Core Team within KCC is responsible for implementing projects financed under Component 3. KCC is currently undergoing a restructuring of its accounting system which is a key element of its Strategic
Framework for Reform program. Progress has been made towards achieving a stronger and more integrated financial management system but more actions need to be taken before the necessary reforms are completed. The financial management system in KCC is mainly designed to meet the requirements of the Local Governments Financial and Accounting Regulations 1998; with reforms not yet completed, it is not suited for reporting the project’s financial performance in accordance with the requirements of LACI. However, KCC is also the implementing agency for the IDA-financed First Urban Project and the Nakivubo Channel Rehabilitation Project. The financial management arrangements for Component 3 of the LGDP will be based on those planned for Nakivubo Channel Rehabilitation Project.

6. **Manual Accounting System:** The system currently in place is a manual based system, with accounting transactions being recorded manually into books of accounts and reports and analyses being produced on computer spreadsheets. The main books of accounts are: (i) Cash Book, (ii) Ledgers, (iii) Journal Vouchers and (iv) Fixed Assets Register. It is planned that the accounting system for the new project will continue to be manual based, but will eventually be computerized.

7. **Internal Controls:** A Financial Management Manual (FMM) has been developed for the KCC implemented Nakivubo Channel Rehabilitation Project and is expected to be finalized by September 30, 1999. Although the PMU does not currently have such a manual, it is planned that one will be developed which will document accounting procedures and internal controls. The manual will also contain clear guidelines for the review of financial information that is generated from the accounting system and reporting lines for financial management which are not defined. The Financial Management Manual would be finalized by December 31, 1999.

8. **Fixed Assets:** A fixed assets register, already in existence, will be used to record the project’s fixed assets.

9. **Staffing of Accounting Function and Responsibilities:** The accounting department in the KCC Core Team is staffed with an appropriate number of staff. However, in the PMU, the accounting function will need to be strengthened to effectively manage the activities currently planned under LGDP. It is envisioned that the volume, intensity and complexity of accounting and financial management activities, particularly to comply with LACI requirements, will increase significantly. The accounting function is currently undertaken by an Assistant Project Accountant, supported by an accounts assistant. A senior accounting professional with the requisite educational and professional background, to manage the accounting functions within the PMU should be appointed by December 31, 1999 as the Project Accountant. The duties of the accounting staff will be documented in the planned Financial Management Manual. In addition, procedures for the inspection of supporting documentation maintained by the Local Governments should be put in place, with properly qualified staff recruited for duties involving the verification of district expenditure.

10. **Financial Reporting Arrangements:** There will be a separate Project Agreement for Component 3 to be implemented by the KCC. There will be separate reporting requirements for Components 1, 2 and 4 and for Component 3, with each implementing unit preparing financial reports as required, including quarterly and annual reports.

11. **Audit Arrangements:** Each set of annual reports will be audited on an annual basis, and the final audit report is expected to be signed and submitted within six months from the end of the financial year. In addition to the audit reports, detailed management letters containing the auditors’ assessment of the internal controls and accounting system would be prepared and suggestions for improvement contained therein followed up by management. The constitution of the Republic of Uganda bestows upon the Auditor General the duty to audit all government department accounts. The Auditor General may delegate this duty to a firm of private auditors, but would still sign the final audit opinion under this arrangement. The accounts for the projects currently being implemented by the PMU are audited under a similar arrangement. This arrangement will be adopted for the project and the terms of reference for the annual audits will also be developed and
included in the Financial Management Manuals. Local Governments under the 1998 regulations are also subject to audits by the Auditor General, and these will be carried out for the district investments financed under Component 2 of the project. Assistance is being given to the Office of the Auditor General by donors including IDA and DFID to enhance its capacity to carry out its audit functions.

12. **Bank Accounts**: MoLG and KCC will each operate two accounts for the components that it has responsibility over: a Special Account denominated in US Dollars, and a Project Account denominated in local currency. Control procedures over all bank transactions will be fully documented in the Financial Management Manual.

13. **The Project Management Reports**: Formats of the PMRs required by the Bank for reporting under LACI are to be developed in accordance with IDA requirements by December 31, 1999. Disbursement of the IDA credit for Component 3 will be done separately from the disbursement for the other components, hence the need for separate reporting requirements. The project will prepare separate annual financial reports for all its activities. The replenishment of the Special Accounts will follow normal IDA procedures under LACI. The IDA Credit for Component 2 will be disbursed in three tranches directly from the Credit to a Deposit Account in the Bank of Uganda as set out in Annex 6.

14. **Conclusion**: Although the financial management arrangements that are currently in use by the PMU meet the minimum requirements under OP 10.02, they are not adequate to provide, with reasonable assurance, accurate and timely information on the status of the project as required by IDA for PMR-based disbursements. The detailed work to be carried out in moving the project to PMR-based disbursements has been set out in an action plan which was discussed and agreed upon during negotiations. This will include updating the current accounting systems with appropriate computer software, revising the FMM, training staff and agreeing on the format and content of the various financial, procurement and monitorable indicator PMR reports. For Component 3, it is expected that KCC, under the NCRP, will move to PMR-based disbursements earlier and the timing of this under LGDP will be dependent on the progress made under NCRP.
Annex 6: Procurement and Disbursement Arrangements

UGANDA: Local Government Development Program

Procurement

Procurement for Project Preparation

1. The major consultancy undertaking during project preparation work for LGDP was project design and the design/implementation of micro projects in the four selected municipalities of Fort Portal, Mbale, Masaka and Lira. These activities were financed from an IDA Project Preparation Facility amounting to US$2.0 million to be refunded by the LGDP credit, support from the IDA-financed Institutional Capacity Building Project amounting to US$0.76 million and two PHRD grants amounting to US$1.24 million bringing the total cost of project preparation activities to about US$4.0 million. Contracts were awarded based on IDA guidelines for use of consultants. The civil works under the micro projects were contracted out following the Local Government Tender Board Regulations and the Local Government Financial and Accounting Regulations, provided for under the Local Governments Act, 1997 of Uganda.

Procurement under the Project (for Components 1, 3 & 4)

Procurement Methods (Table A)

2. A summary of proposed procurement arrangements are presented in Table A.

Table A1: Consultant Selection Arrangements

3. Table A1 provides a summary of consultant selection arrangements. The total value of IDA-supported consulting assignments will be US$10.58 million. This will mainly be used for consultancy assignments for planning and engineering designs, policy analysis, institutional support, preparation of guides, manuals and training materials for use by the Ministry of Local Government, the Local Government Finance Commission secretariat, Local Governments and the Kampala City Council. Consultants will be hired in accordance with the Guidelines for Selection and Employment of Consultants by World Bank Borrowers (January 1997; Revised September, 1997; Addendum Effective January 1, 1999). Consultant selection for the assignments will be addressed through competition among qualified short-listed firms or individuals in which the selection will be based on Quality-and-Cost-Based Selection (QCBS) by evaluating the quality of the proposal before comparing the cost of the services to be provided. In addition selection shall also be done based on Consultants’ Qualifications (CQ) and other methods as provided for in the guidelines. Shortlists for contracts estimated under US$200,000 may comprise entirely national consulting firms if a sufficient number of qualified (at least three) are available at competitive costs. However, if foreign firms have expressed interest, they shall not be excluded from consideration. Single source selection of consulting services is not permitted without justification and prior review by IDA.

4. Training activities totaling US$5.42 million will comprise hiring consultants for developing training materials and conducting training, support for training activities through task forces, seminars, workshops, attachments and fellowships within MoLG, LGFC, KCC and other LGs. In addition, US$4.84 million will be spent on office and administrative support. US$12.06 million will be spent on contracting out services. The procurement of these activities will also follow IDA procurement guidelines.

5. Procurement of goods and works will be carried out in accordance with Guidelines for Procurement under IBRD Loans and IDA Credits (January 1996, August 1996, September 1997, January 1999). Due to the nature of the works contracts and based on implementation experience from the First Urban Project
(Cr.2206-UG), all works with an estimated contract value of US$50,000 or more for an aggregate value not exceeding US$7.5 million may be awarded on the basis of NCB. However, foreign contractors will not be precluded from bidding for NCB contracts. In the case of minor works (works of individual estimated contract value less than US$50,000) for an aggregate value not exceeding US$7.5 million, fixed price contracts may be awarded on the basis of written solicitation issued to at least three qualified contractors, following evaluation of bids received in writing from the selected contractors. Contracts for the procurement of goods with an estimated value of US$100,000 or more will be awarded on the basis of ICB. Contracts with an estimated value of US$30,000 or more and not exceeding US$100,000 for an aggregate value not exceeding US$600,000 may be awarded on the basis of NCB. Contracts with an estimated value less than US$30,000 for an aggregate value not exceeding US$600,000 may be awarded on the basis of Shopping.

6. The General Procurement Notice will be published in the Development Business Forum at least 60 days prior to the issue of bid documents. Specific Procurement Notices in accordance with the guidelines will be issued before shortlists with respect to consulting contracts above US$200,000. The Procurement Strategy and Implementation Schedules for consultancies, goods, services and works are included in Annex 11 to this PAD.

**Implementation Arrangements**

7. The procurement of contracts to be awarded by MoLG and the LGFC will be undertaken by the Procurement Section of the Program Management Unit under the MoLG. The procurement staff in the PMU have undergone training and carried out procurement of consultants, works and goods during LGDP project preparation activities and the implementation of a part of the Institutional Capacity Building Project. The procurement staff in PMU will include a Program Officer and three Accountants and will be provided with the necessary administrative and secretarial support. Funds have also been made available under LGDP for additional training in procurement and for the recruitment of a specialist trained in procurement for the PMU.

8. The procurement for the KCC contracts will be undertaken by the Core Team of the KCC under the supervision of the Town Clerk. The procurement staff in the KCC Core Team have undergone training and carried out procurement of consultants, works and goods for the ongoing First Urban Project and the Nakivubo Channel Rehabilitation Project. They will continue with the procurement activities under LGDP. The Core Team's procurement staff includes three engineers and two accountants who will be provided with the necessary administrative and secretarial support. The procurement staff will report directly to the Program Coordinator. Procurement specialists from the Kirklees Metropolitan Council of the U.K., KCC's technical co-operation partner will provide the requisite training and advisory services to the procurement team within the KCC Core Team. Funds have also been made available under LGDP for additional training in procurement.

**Prior Review**

**Prior Review Thresholds (Table B)**

9. For procurement of works, all contracts valued at US$300,000 or more will require prior review by IDA. For procurement of goods all contracts valued at US$100,000 or more will require prior review by IDA. IDA will also review the selection process for the hiring of consultants by the Borrower. For those consultancy contracts to be awarded to firms, contracts worth US$100,000 and above will be subject to IDA prior review; for individual consultants the prior review threshold will be US$50,000. The exception to IDA prior review will not apply to the Terms of Reference of such contracts, regardless of value, to single-source hiring, or assignments of a critical nature as determined by IDA or to amendments of contracts raising the contract value above the prior review thresholds.
10. Institutional support groups during inspections shall conduct ad hoc representative sampling of contracts for compliance with laid down procedures in the procurement process and for quality. Lack of quality and transparency in the procurement process will result in reduced allocations from the local development grants for the relevant LGs. In addition to the representative sampling for compliance to be carried out under the project, IDA will carry out supervision inspections and post reviews on the performance of LGs benefiting from the project.

**Disbursement**

*Allocation of Credit Proceeds (Table C)*

11. The proceeds of the IDA credit would be disbursed against:

(a) 60% of expenditures on civil works contracts;
(b) 80% of expenditures for vehicles, equipment and materials procured outside the current preparatory activities;
(c) 95% of expenditures for contracted out services, studies, consultancies and advisory services;
(d) 95% of expenditures on office and administrative support costs;
(e) 70% on training;
(f) 100% of local government development grants; and
(g) 100% of the Project Preparation Facility Refund.

12. The IDA Credit to finance activities under Component 2 of the project will be disbursed in three tranches directly from the Credit to a Deposit Account in the Bank of Uganda. The funds will be transferred to the Local Governments in quarterly tranches.

13. The first tranche from the IDA Credit will be released at the beginning of the project upon the submission of:

(i) Cash flow forecasts for the second half of FY2000 for the Local Development Grants based on the District and Municipal Development Plans of qualified LGs and for the Capacity Building Grants for all eligible LGs.

(ii) Participation Agreements between the Government and eligible higher level Local Governments (districts and municipalities).

(iii) Standard format Participation Agreements to be entered into between eligible higher level Local Governments and eligible lower level Local Governments (sub-counties, divisions, and town councils).

14. The second tranche release will be made when the Government submits:

(i) A Report on the Financial Performance Assessment (FPA) carried out by MoLG in May/June 2000 (for the period 1 January 2000 to 31 March 2000) together with a report of a satisfactory status of LG audits. The MoLG's FPA will include a financial review together with an assessment of project progress in terms of implementation of project objectives.

(ii) A schedule indicating the amount of Local Development Grant and Capacity Building Grant that has been released to the eligible Local Governments during the period from January 2000 through June 2000; and the amounts to be released, on a quarterly basis, to each eligible Local Government during the period July 2000 through June 2001.
(iii) A certification indicating that there have been no reallocations, deviations, suspension or partial suspension of funds released under the previous tranche as compared against the Indicative Planning Figures for the Local Governments.

(iv) Participation Agreements, acceptable to the Association, between the Borrower and the eligible higher level local governments.

15. The third tranche release will be made when the MoLG submits:

(i) A Report on the FPA carried out by MoLG in May/June 2001 (for the period 1 October 2000 to 31 March 2001) incorporating the results of the FPA carried out in November/December 2000 (for the period 1 April 2000 to 30 September 2000), together with a report of a satisfactory status of LG audits.

(ii) A schedule indicating the amount of Local Development Grant and Capacity Building Grant that has been released to the eligible Local Governments during the period from July 2000 through June 2001; and the amounts to be released, on a quarterly basis, to each eligible Local Government during the period July 2001 through June 2002.

Same as (iii) and (iv) above.

16. As projected by the Bank’s standard disbursement profiles, disbursement would be completed by four months after project closure. Disbursement would be made against standard IDA documentation.

Use of Statements of Expenditures and Project Monitoring Reports

17. Disbursement would be made on the basis of SOEs for contracts and purchase orders with an individual value less than those requiring IDA’s prior review. The project is expected to be compliant with LACI requirements by December 31, 2000 after which disbursements will be made quarterly on the basis of PMRs.

Special Account

18. In order to ensure the timely provision of funds to finance the costs of the project, the Government will establish Special Accounts in the amounts as specified below:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>MoLG (for Components 1 &amp; 4)</td>
<td>US$ 2.5 million</td>
</tr>
<tr>
<td>KCC (for Component 3)</td>
<td>US$ 1.5 million</td>
</tr>
</tbody>
</table>

Funds in these Special Accounts would be available to finance only eligible expenditures under the project. During negotiations, agreement was reached regarding the arrangements for establishing and operating the Special Accounts. Funds for Component 2 will be provided through direct tranche releases from the IDA Credit to a Deposit Account in the Bank of Uganda, therefore, no Special Account will be needed.

Project Account

19. In order to ensure the timely provision of counterpart funds, the Government will establish appropriate Project Accounts at commercial banks acceptable to IDA, with an initial balance sufficient for the first two quarters by credit effectiveness. Similarly, all Local Governments under the project shall also be requested to establish project accounts at their levels. The central government and the LGs shall replenish the Project Accounts at intervals of not more than 3 months, with sufficient funds to meet the governments’ shares of expenditures under the project for the ensuing 3 months, and the funds would be applied only for this purpose. During negotiations, agreement was reached regarding the arrangements for establishing and operating the Project Accounts and are reflected in the DCA and PA.
Overall Procurement Risk Assessment

A. Background

A procurement capacity/risk assessment was done in August 1999 in the context of LGDP. Given MoLG’s and KCC’s prior track record on IDA procurement under the ICBP, FUP and NCRP it has been determined that MoLG and KCC have adequate and reliable procurement management capacity. Of the total IDA financing of US$80.9 million for the project, contracts worth US$30.1 million are subject to prior review. This amounts to 80% of Components 1, 3 and 4. Component 2, by its special nature, cannot be subject to prior review as it deals with budgetary transfers. In addition, as part of project preparation activities MoLG and KCC have demonstrated and delivered acceptable quality of outputs by way of preparing RFPs, bid documents for micro projects and have appointed and managed various consultancies.

B. Legal Framework

MoLG, LGFC and KCC follow the laws and regulations established by the Government of Uganda. The regulations are considered satisfactory for procurement methods such as NCB and shopping. The World Bank’s procurement guidelines will be followed throughout for all other procurement methods such as ICB and International Shopping.

C. Procurement Cycle Management

C1. Procurement Planning
Procurement Planning is satisfactory, and MoLG and KCC have adequate staffing for it. For complex design, technical assistance has been envisaged for the project.

C2. Procurement Cycle
The procurement plan is adequate and the implementation schedule is acceptable.

C3. Bidding Documents
Bid documents for Components 1, 3 and 4 will be based on those previously used for the ICBP, FUP and NCRP and conform to IDA requirements. They are satisfactory and consistent with the World Bank’s standard bid documents.

C4. Pre-qualification
No pre-qualification is envisaged as all the civil works contracts are small and will be tendered under NCB. In the event that any pre-qualification becomes necessary technical assistance will be provided under the project.

C5. Advertisement
MoLG and KCC follow all advertising procedures recommended by IDA.

C6. Communications between bidders and the procuring agency
No major issues were encountered under the previous projects. Agency transparency in bidder communication appears to have been satisfactory.

C7. Receipt of bids and bid opening
World Bank recommended bid opening practices are followed. No transparency issues are expected under the project.

C8. Bid examination and evaluation
PMU (MoLG) and KCC will carry out the evaluation of the bids. No very large contracts are envisaged under the project. The experience gained by the PMU and the KCC on this activity under the current World Bank projects is deemed sufficient.

C9. Contract Award and effectiveness
World Bank recommended practices have been followed throughout the previous ICBP, FUP and NCRP. However, some institutional streamlining at the MoLG is required if delays are to be avoided.

C10. Contract Administration
MoLG's and KCC's capacity to manage and supervise contracts need strengthening and will be reinforced through training, (workshops in procurement will be carried out at project inception) and by way of technical assistance, particularly for construction works supervision and contract handling. Regular auditing of administrative actions will be undertaken at yearly intervals. MoLG will also appoint an additional specialist, trained in procurement at the PMU.

D. Organization and Functions

No changes are expected to be made to the existing units that are to manage and administer the project except for the appointment at the start of the project of a specialist trained in procurement. All the procurement and financial functions related to Components 1 and 4 will fall under the direct control of the PMU. The PMU will also monitor these functions under Component 2 for the LGs. It is also necessary that the functions of the MoLG are streamlined to enable expeditious project implementation. The general assessment is satisfactory but will need to be further strengthened through technical assistance.

E. Support and Control Systems

Refer to Chapter 7 of the Program Implementation Plan on Financial Management (see Annex 8 to this PAD on Documents in the Project File).

F. Record Keeping

Record keeping was satisfactory under the ICBP, FUP and NCRP but shall be strengthened through additional training under the project. Both MoLG and KCC have planned to provide additional office storage space for filing and other purposes. The support staff in the project offices will also need to be further trained under the project.

G. Staffing

MoLG has established a PMU consisting of technical consulting staff, who will carry out, under contractual terms, the management and administration of the project. Similarly, KCC has established a Core Team from its own staff who will carry out, under contractual terms, the management and administration of the project. These teams will be assisted for complex tasks by external consultants. Bid evaluations will also be carried out by MoLG and the KCC Core Team staff. MoLG and KCC staff will participate in a procurement workshop on World Bank procurement procedures at project inception.

H. Risk Assessment

Average, given previous experience. Bank prior review procedures cover most of the procurement actions under the project.

Frequency of procurement supervision missions proposed
One every 6 months (includes special procurement supervision for post-review/audits).
### Table A: Project Costs by Procurement Arrangements

(in US$ million equivalent)

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ICB</td>
</tr>
<tr>
<td>1. Civil Works</td>
<td>1.063</td>
</tr>
<tr>
<td>2. Goods</td>
<td>0.784</td>
</tr>
<tr>
<td></td>
<td>(0.627)</td>
</tr>
<tr>
<td>3. Services</td>
<td></td>
</tr>
<tr>
<td>(a) Contracted out services, studies and institutional support</td>
<td>4.990</td>
</tr>
<tr>
<td>(b) Office and administrative support</td>
<td>(4.731)</td>
</tr>
<tr>
<td>(c) Training</td>
<td>5.421</td>
</tr>
<tr>
<td>4. Local Government Development Grant</td>
<td>52.330</td>
</tr>
<tr>
<td>5. Project Preparation Facility Refund</td>
<td>2.000</td>
</tr>
<tr>
<td>Total</td>
<td>0.215</td>
</tr>
</tbody>
</table>

\(^{1}\) Figures in parenthesis are the amounts to be financed by the IDA Credit. All costs other than category 5 includes contingencies.

\(^{2}\) Includes minor civil works, goods, consulting services, services of contracted staff of the project management/coordination units, training, technical assistance services, operating costs, and allocation of the Local Government Development Grant to LGs.
Table A1: Consultant Selection Arrangements
(US$ million equivalent)

<table>
<thead>
<tr>
<th>Consultant Services Expenditure Category</th>
<th>QCBS</th>
<th>QBS</th>
<th>SFB</th>
<th>LCS</th>
<th>CQ</th>
<th>Other</th>
<th>N.B.F.</th>
<th>Total Cost¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Firms</td>
<td>2.958</td>
<td>0.188</td>
<td></td>
<td></td>
<td>4.821</td>
<td>7.966</td>
<td></td>
<td>7.966</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(2.810)</td>
<td></td>
<td>(2.810)</td>
</tr>
<tr>
<td>B. Individuals</td>
<td>2.614</td>
<td>2.614</td>
<td></td>
<td></td>
<td>2.614</td>
<td>2.614</td>
<td></td>
<td>2.614</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>(2.483)</td>
<td></td>
<td>(2.483)</td>
</tr>
<tr>
<td>Total</td>
<td>2.958</td>
<td>0.188</td>
<td></td>
<td></td>
<td>7.435</td>
<td>10.580</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>(2.810)</td>
<td></td>
<td>(2.810)</td>
</tr>
</tbody>
</table>

¹ Including contingencies

Note: QCBS = Quality- and Cost-Based Selection
QBS = Quality-based Selection
SFB = Selection under a Fixed Budget
LCS = Least-Cost Selection
CQ = Selection Based on Consultants' Qualifications
Other = Selection of individual consultants (per Section V of Consultants Guidelines), Commercial Practices, etc.
N.B.F. = Not Bank-financed
Figures in parenthesis are the amounts to be financed by the IDA Credit.
<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Contract Value Threshold (US$)</th>
<th>Procurement Method</th>
<th>Contracts Subject to Prior Review (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Works</td>
<td>&gt; 50,000</td>
<td>NCB</td>
<td>&gt; 300,000</td>
</tr>
<tr>
<td></td>
<td>&lt; 50,000</td>
<td>&quot;National Shopping&quot;</td>
<td></td>
</tr>
<tr>
<td>2. Goods</td>
<td>&gt; 100,000</td>
<td>ICB</td>
<td>&gt; 100,000</td>
</tr>
<tr>
<td></td>
<td>&lt; 100,000</td>
<td>NCB</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&lt; 30,000</td>
<td>National Shopping</td>
<td></td>
</tr>
<tr>
<td>3. Services</td>
<td>QCBS</td>
<td>&gt; 100,000 (firms)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; 50,000 (individuals)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Single Source</td>
<td>All</td>
<td></td>
</tr>
</tbody>
</table>

Total value of contracts subject to prior review: US$30.08 million
### Table C: Allocation of Credit Proceeds

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Amount in US$ million</th>
<th>Financing Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Civil Works</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Component 3</td>
<td>0.64</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Goods</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Components 1 &amp; 4</td>
<td>0.88</td>
<td>80%</td>
</tr>
<tr>
<td>(b) Component 3</td>
<td>0.44</td>
<td></td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Components 1 &amp; 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Contracted Out Services, Studies and Institutional Support</td>
<td>6.56</td>
<td>95%</td>
</tr>
<tr>
<td>(ii) Office and Administrative Support</td>
<td>4.42</td>
<td>95%</td>
</tr>
<tr>
<td>(iii) Training</td>
<td>3.63</td>
<td>70%</td>
</tr>
<tr>
<td>(b) Component 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Contracted Out Services, Studies and Institutional Support</td>
<td>12.90</td>
<td>95%</td>
</tr>
<tr>
<td>(ii) Office and Administrative Support</td>
<td>0.15</td>
<td>95%</td>
</tr>
<tr>
<td>(iii) Training</td>
<td>0.16</td>
<td>70%</td>
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<tr>
<td><strong>Local Government Development Grant</strong></td>
<td></td>
<td></td>
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<tr>
<td>Component 2</td>
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<tr>
<td>(a) First Tranche</td>
<td>7.70</td>
<td>100%</td>
</tr>
<tr>
<td>(b) Second Tranche</td>
<td>17.04</td>
<td>100%</td>
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<td>(c) Third Tranche</td>
<td>22.38</td>
<td>100%</td>
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<tr>
<td><strong>Project Preparation Facility Refund</strong></td>
<td>2.00</td>
<td>100%</td>
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<tr>
<td><strong>Unallocated</strong></td>
<td>2.00</td>
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<td><strong>Total</strong></td>
<td><strong>80.88</strong></td>
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### Annex 7: Project Processing Schedule

**UGANDA: Local Government Development Program**

<table>
<thead>
<tr>
<th>Project Schedule</th>
<th>Planned</th>
<th>Actual</th>
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<tr>
<td>Time taken to prepare the project (months)</td>
<td>43 months</td>
<td>55 months</td>
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<tr>
<td>First Bank mission (identification)</td>
<td>03/01/95</td>
<td>03/15/95</td>
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<td>Appraisal mission departure</td>
<td>03/10/98</td>
<td>9/20/99</td>
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<td>Negotiations</td>
<td>5/15/98</td>
<td>10/20/99</td>
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<tr>
<td>Planned Date of Effectiveness</td>
<td>10/16/98</td>
<td>1/1/00</td>
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**Prepared by:**

Program Management Unit of the Ministry of Local Government and the Kampala City Council

**Preparation assistance:**

Project design, the Program Implementation Plan and its annexes and implementation of the pilot micro projects program was jointly done by the PMU and its consultants under the PMU’s supervision financed through the PPF, two PHRD grants and the IDA-financed Institutional and Capacity Building Project.

**Bank staff who worked on the project included:**

<table>
<thead>
<tr>
<th>Name</th>
<th>Specialty</th>
</tr>
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<tbody>
<tr>
<td>Gautam Sengupta</td>
<td>Task Team Leader</td>
</tr>
<tr>
<td>Brian Falconer</td>
<td>Lead Specialist/ Component 1, Letter of Sectoral Policy, Financial Management Aspects</td>
</tr>
<tr>
<td>Sudeshna RoyChoudhury</td>
<td>Consultant Operations Officer/ Institutional arrangements, PCD, PAD, PIP, Internal Bank Processing</td>
</tr>
<tr>
<td>Paul Smoke</td>
<td>Consultant Public Finance Specialist/ Component 1, Economic Justification,</td>
</tr>
<tr>
<td>Hamim Magdon-Ismail</td>
<td>Consultant Municipal Engineer/ Procurement, PIP</td>
</tr>
<tr>
<td>Joseph Mubiru Kizito</td>
<td>Financial Management Specialist/ Financial Assessment</td>
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<tr>
<td>Ephrem Asebe</td>
<td>Consultant Economist/ Economic Justification</td>
</tr>
<tr>
<td>Palitha Wijesinghe</td>
<td>Senior Disbursement Officer/ Financial Management Aspects</td>
</tr>
<tr>
<td>Aberra Zerabruk</td>
<td>Senior Counsel/ Legal Agreements</td>
</tr>
<tr>
<td>Rogati Anael Kayani</td>
<td>Senior Procurement Specialist/ Procurement</td>
</tr>
<tr>
<td>Perla San Juan</td>
<td>Task Team Assistant</td>
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</table>
Annex 8: Documents in the Project File*

UGANDA: Local Government Development Program

A. Program Implementation Plan, October 1999

*Appendices to the PIP*

1) Letter of Sectoral Policy
2) Draft Subsidiary Agreements

*Annexes to the PIP*

1) Project Design Summary
2) TORs for Consultancies
3) Draft Operational Manual for Local Government Development Grant
4) Draft Capacity Building Fund Manual
5) Draft Service Delivery Information System
6) Draft Standard Bidding and Contract Documents
7) Draft Hygiene and Sanitation Education Manual
8) Sample Memoranda of Understanding
9) Modular Designs and Cost Estimates for Basic Community Infrastructure
10) Lira Development Plan
11) Mbale Development Plan
12) Masaka Development Plan
13) Fort Portal Development Plan
14) Kampala City Council Strategic Framework for Reform
15) Parish Level Investments, Kampala and Jinja
16) Environmental Assessment of LGDP
17) Financial Management and Administration Procedures
18) Guidelines for Community, Divisional and Municipal Development Plans
19) Community Participation Review (CPR) Report
20) Assessment Manual of Minimum Conditions for District/Municipal Local Governments
21) Environmental Mitigation Plan

B. Bank Staff Assessments

1) LGDP Project Concept Document, June 1999
2) TOR for the Community Participation Review
3) TOR for the Infrastructure Needs Assessment
4) TOR for the Environmental Assessment Study
5) Assessment of Financial Management Arrangements, September 30, 1999
6) Procurement Capacity Assessment, September 1999

C. Other

1) Project Preparation Aide Memoires
2) Inaugural Assessment of Minimum Conditions for District/Municipal Local Governments – Synthesis Report, August 1999
3) Detailed Report on Assessment of Minimum Conditions for District/Municipal Local Governments, August 1999

*Including electronic files*
### Annex 9: Statement of Loans and Credits

#### UGANDA: Local Government Development Program

<table>
<thead>
<tr>
<th>Project ID</th>
<th>FY</th>
<th>Borrower</th>
<th>Purpose</th>
<th>IBRD</th>
<th>IDA</th>
<th>Canceled</th>
<th>Undisb.</th>
<th>Orig</th>
<th>Frm Rev’d</th>
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<tr>
<td>UG-PE-2941</td>
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<td>18.32</td>
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Total:   0.00  1,028.47  23.75  533.45  254.89  20.53

### Notes:

- **Active Projects**: Number of projects currently active.
- **Closed Projects**: Number of projects now closed.
- **Total**: Total number of projects.

<table>
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<tr>
<th>Active Projects</th>
<th>Closed Projects</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Disbursed (IBRD and IDA):</td>
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<td>1,771.11</td>
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<tr>
<td>of which has been repaid:</td>
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<tr>
<td>Total now held by IBRD and IDA:</td>
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<td>1,383.38</td>
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<tr>
<td>Amount sold:</td>
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</tr>
<tr>
<td>of which repaid:</td>
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</tr>
<tr>
<td>Total Undisbursed:</td>
<td>533.45</td>
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*a Actual disbursements to date minus intended disbursements to date as projected at appraisal.*
UGANDA
STATEMENT OF IFC’s
Held and Disbursed Portfolio
31-Jul-1999
In Millions US Dollars

<table>
<thead>
<tr>
<th>FY Approval</th>
<th>Company</th>
<th>Committed</th>
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<th>Disbursed</th>
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<td>IFC Loan</td>
<td>Equity</td>
<td>IFC Loan</td>
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<td>DFCU</td>
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<td>0.00</td>
</tr>
<tr>
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<td>AEF Clovergem</td>
<td>0.84</td>
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<tr>
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<td>AEF Nile Roses</td>
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Approvals Pending Commitment

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Annex 10: Country at a Glance

UGANDA: Local Government Development Program
POVERTY and SOCIAL

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<th>Sub-Saharan Africa</th>
<th>Low-income</th>
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<tr>
<td>Population, mid-year (millions)</td>
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<tr>
<td>GNP per capita (Atlas method, US$)</td>
<td>320</td>
<td>480</td>
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<tr>
<td>GNP (Atlas method, US$ billions)</td>
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Average annual growth, 1992-98

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<td>Population (%)</td>
<td>3.0</td>
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<td>Labor force (%)</td>
<td>2.7</td>
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Most recent estimate (latest year available, 1992-98)

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<td>Poverty (% of population below national poverty line)</td>
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<td>Urban population (% of total population)</td>
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<td>Life expectancy at birth (years)</td>
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<td>Infant mortality (per 1,000 live births)</td>
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<td>Child malnutrition (% of children under 5)</td>
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<td>Access to safe water (% of population)</td>
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<tr>
<td>Illiteracy (% of population age 15+)</td>
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<td>Gross primary enrollment (% of school-age population)</td>
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<td>Male</td>
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KEY ECONOMIC RATIOS and LONG-TERM TRENDS

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(average annual growth)

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STRUCTURE of the ECONOMY

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<td>(% of GDP)</td>
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<td>Agriculture</td>
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<td>Industry</td>
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<td>Manufacturing</td>
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<td>Private consumption</td>
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(average annual growth)

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<td>Manufacturing</td>
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<td>13.4</td>
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<td>Services</td>
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<td>Private consumption</td>
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<td>General government consumption</td>
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<td>Gross domestic investment</td>
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<td>Gross national product</td>
<td>7.1</td>
<td>5.4</td>
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Note: 1998 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.
### PRICES and GOVERNMENT FINANCE

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<td>Domestic prices (%) change</td>
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<td>Consumer prices</td>
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<td>Government finance (% of GDP, includes current grants)</td>
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<td>Overall surplus/deficit</td>
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### TRADE

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<td>(US$ millions)</td>
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<td>Total exports (fob)</td>
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<td>671</td>
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<td>Coffee</td>
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<td>366</td>
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<td>Export price index (1995=100)</td>
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<td>Import price index (1995=100)</td>
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<td>Terms of trade (1995=100)</td>
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### BALANCE of PAYMENTS

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<td>(US$ millions)</td>
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<td>Imports of goods and services</td>
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<td>Memo: Reserves including gold (US$ millions)</td>
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### EXTERNAL DEBT and RESOURCE FLOWS

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### Annex 11: Procurement Strategy and Implementation Schedules

#### UGANDA: Local Government Development Program

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<th>Proc. Method</th>
<th>Lump Sum or Time Based</th>
<th>Alloc. M</th>
<th>Proc. Unit</th>
<th>Plan vs. Actual</th>
<th>TERMS OF REFERENCE</th>
<th>SHORT LIST</th>
<th>REQUEST FOR PROPOSAL</th>
<th>BID EVALUATION TECHNICAL (T) &amp; FINANCIAL (F)</th>
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<td>Bid Invitation</td>
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<td>Bid Opening Date</td>
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<td>Approval Date (T)</td>
<td>Approval Date (T)</td>
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<td>Latest Date</td>
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<td>Delivery Date</td>
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#### Component 1

- **Mentoring LGs**
  - QCBS Time Based: 0.445
  - PMU Plan: 15-Oct-99
  - Date: 20-Oct-99
  - Date: 30-Oct-99
  - Date: 15-Oct-99
  - Date: 15-Oct-99
  - Date: 15-Oct-99
  - Date: 04-Dec-99
  - Date: 19-Dec-99
  - Date: 29-Dec-99
  - Date: 01-Jan-00
  - Date: 11-Jan-00
  - Date: 21-Jan-00
  - Date: 20-Jan-01

- **Compliance Supervision**
  - CQ Lump Sum: 0.063
  - PMU Plan: 15-Oct-99
  - Date: 20-Oct-99
  - Date: 30-Oct-99
  - Date: 15-Oct-99
  - Date: 15-Oct-99
  - Date: 15-Oct-99
  - Date: 26-Oct-99
  - Date: 25-Nov-99
  - Date: 10-Dec-99
  - Date: 20-Dec-99
  - Date: -
  - Date: -
  - Date: 09-Jan-00
  - Date: 05-Oct-00

- **M & E**
  - CQ Lump Sum: 0.063
  - PMU Plan: 15-Oct-99
  - Date: 20-Oct-99
  - Date: 30-Oct-99
  - Date: 15-Oct-99
  - Date: 15-Oct-99
  - Date: 15-Oct-99
  - Date: 26-Oct-99
  - Date: 25-Nov-99
  - Date: 10-Dec-99
  - Date: 20-Dec-99
  - Date: -
  - Date: -
  - Date: 09-Jan-00
  - Date: 05-Oct-00

- **Advocacy**
  - Other Lump Sum: 0.191
  - PMU Plan: 01-Nov-99
  - Date: 06-Nov-99
  - Date: 16-Nov-99
  - Date: 16-Nov-99
  - Date: 01-Nov-99
  - Date: 11-Nov-99
  - Date: 12-Nov-99
  - Date: 12-Dec-99
  - Date: 27-Dec-99
  - Date: 06-Jan-00
  - Date: -
  - Date: 26-Jan-00
  - Date: 22-Oct-00

- **Info Comm System**
  - Other Lump Sum: 0.115
  - PMU Plan: 01-Nov-99
  - Date: 06-Nov-99
  - Date: 16-Nov-99
  - Date: 16-Nov-99
  - Date: 01-Nov-99
  - Date: 11-Nov-99
  - Date: 12-Nov-99
  - Date: 12-Dec-99
  - Date: 27-Dec-99
  - Date: 06-Jan-00
  - Date: -
  - Date: 26-Jan-00
  - Date: 22-Oct-00

- **Improve LG Taxes**
  - CQ Lump Sum: 0.050
  - PMU Plan: 01-Nov-99
  - Date: 06-Nov-99
  - Date: 16-Nov-99
  - Date: 16-Nov-99
  - Date: 01-Nov-99
  - Date: 11-Nov-99
  - Date: 12-Nov-99
  - Date: 12-Dec-99
  - Date: 27-Dec-99
  - Date: 06-Jan-00
  - Date: -
  - Date: 26-Jan-00
  - Date: 22-Oct-00

- **LGFC M&E**
  - CQ Lump Sum: 0.013
  - PMU Plan: 01-Nov-99
  - Date: 06-Nov-99
  - Date: 16-Nov-99
  - Date: 16-Nov-99
  - Date: 01-Nov-99
  - Date: 11-Nov-99
  - Date: 12-Nov-99
  - Date: 12-Dec-99
  - Date: 27-Dec-99
  - Date: 06-Jan-00
  - Date: -
  - Date: 26-Jan-00
  - Date: 22-Oct-00

- **Training**
  - Other Lump Sum: 4.230
  - PMU Plan: 01-Jan-00
  - Date: 01-Jan-00
  - Date: 31-Dec-03

- **O&A Support**
  - Other Lump Sum: 1.940
  - PMU Plan: 01-Jan-00
  - Date: 01-Jan-00
  - Date: 31-Dec-03

#### Component 2

- **Capacity Building Grant**
  - Other Lump Sum: 4.540
  - PMU Plan: 01-Jan-00
  - Date: 4.540
  - Date: 31-Dec-03
### TERMS OF REFERENCE

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<th>Bid Opening Date</th>
<th>Request Date (T)</th>
<th>Approval Date (T)</th>
<th>Request Date (F)</th>
<th>Approval Date (F)</th>
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* This item has several repetitive actions/steps. Date (0) denotes the beginning date of the first action/step. Date (4) denotes the end date of the last action/step.
## Annex 11: Procurement Strategy and Implementation Schedules

**UGANDA: Local Government Development Program**

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**Total Goods**  **1.653**

* - This item has several repetitive actions/steps. Date\((3)\) denotes the beginning date of the first action/step. Date\((4)\) denotes the end date of the last action/step.
## Annex 11: Procurement Strategy and Implementation Schedules

**UGANDA: Local Government Development Program**

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### Component 3

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**Total Works:** 48.85
Annex 12: Letter of Sectoral Policy

UGANDA: Local Government Development Program
October 28, 1999

Mr. James Adams
Country Director, Uganda
Eastern Africa Department
The World Bank
1818 H street N.W
Washington, D.C. 20433
U.S.A.

Dear Mr. Adams

Letter of Sector Policy on Fiscal Devolution, Control and Management of Public Expenditure

1. I am writing on behalf of the Government of the Republic of Uganda to indicate our policy on devolution of development funds to local governments and on our strategy for improving fiscal control and the management of public expenditure. This letter also describes the actions that Government will undertake to implement these measures through the proposed Second Economic and Financial Management Project (EFMII) and the Local Government Development Programme (LGDP).

Background

2. Since May 1987, Uganda has implemented both macro-economic reforms that have focused on restoring and maintaining macro-economic stability and undertaken structural reforms aimed at improving the country's economic, social and institutional infrastructure. Together with IDA and other key development partners, the Government has implemented several key structural reforms with considerable synergy i.e. constitutional reform, civil service reform, public enterprise reform and private sector development and the decentralisation of government.

3. In October 1992, the President of Uganda launched an ambitious Decentralisation Programme as part of a long-term government policy to enhance political and social harmony. Since then, Decentralisation has become the cornerstone of the Government's efforts to promote good governance, broad based and rapid economic growth and improved delivery of services which are all key planks of the Government's poverty eradication programme.

4. The results of these reforms have been impressive. In macro-economic terms, since 1997 the Gross Domestic Product has expanded at annual rate of over 6.5% and inflation has been reduced sharply from double digits in 1987 to single digits in the last six years. Domestic Government revenue have increased from the equivalent of 6% of GDP in 1988/87 to 12% of GDP in 1998/99 and, while maintaining macroeconomic stability, the Government has increased its expenditures from the equivalent of 8.6% of GDP in 1988/87 to 18.6% in 1998/99. The Government has also realised reductions on subsidies to public enterprises and has since 1987 taken steps to refocus public expenditure on sectors which have a direct bearing on Government's long-term objective of eradicating mass poverty by 2017.

5. As part of the programme, the Government has completed political and administrative decentralisation and a phased devolution of recurrent financing for most government services to all the 45 districts, and elected local councils now exercise control over a selected range of revenues raised in their
Jurisdictions. The government is also implementing the Uganda Participatory Poverty Assessment Project (UPPAP) which seeks to bring the voice of the poor into national policy formulation and district planning process in order to bridge the gap between public policy and practical action to help the poor. UPPAP is designed to supplement the quantitative macroeconomic monitoring of poverty indicators with community participatory appraisal techniques which allow the poor people themselves to discuss and analyse the causes, dimensions and consequences of poverty, and to evolve local action plans to fight poverty.

6. With regard to improvements attributable to the decentralisation programme, data available indicates that there has been an increase in resources and benefits to the population and a decline in the proportion of the population whose income was inadequate to meet the basic necessities of life (food, shelter and clothing) from 56% in 1992 to 44% in 1997. Various studies also point to improved local decision making, greater accountability, improved local administrative and planning capacities, and an encouragingly wide range of local initiatives in the use of public resources.

7. The Government however recognises that longer-term fiscal sustainability will depend on improved revenues both for central Government and local governments, improved public expenditure management at all levels, and the sustained effort to eradicate poverty. While the Government has been successful in restoring control over macro-economic aggregates and has achieved some improvements in service delivery, the underlying fiscal systems and structures have remained inadequate in many respects and need to be urgently addressed.

8. The Government also recognises that substantial gaps remain with respect to fiscal devolution. Until 1999/2000, fiscal devolution has been limited to recurrent budget expenditures while the control and management of development funds has remained the responsibility of central government. This inability to complete fiscal decentralisation has hampered the full realisation of the objective of decentralisation.

9. The Government intends to fully decentralise the development budget as the next step in the process of fiscal devolution. The Government will also focus on building capacities at the centre and within local governments, including provision of facilities and equipment, establishing and refining procedures and systems of fiscal and administrative control, and stakeholder training in order to build the capacity for sound management at the local government level.

10. To a limited extent, aspects of decentralisation of the development budget have been implemented in selected districts as multi-sectoral district development programmes through direct donor involvement. Some of the districts that have benefited through these schemes include Rakai, Hoima, Kibale, Kisoro, Soroti and Arua. Decentralised single sectoral development initiatives have included District Health Services Programme and decentralised classroom construction for primary schools.

11. As part of efforts to refine procedures for decentralised financing and planning for services delivery, Government has been piloting Local Development Funds in Mukono, Arua, Kabale, Kotido and Jinja and is about to extend this to other district/municipal Local Governments. The pilot phase has given the Government the opportunity to understand the fiscal and financial bottlenecks which lie ahead in further fiscal devolution. In the section below, I outline the guiding principles of the policy framework in which the full decentralisation of development resources and fiscal control and management of public expenditure will occur. I also give details about the expected contribution of the EFMP II and Interim LGDP to the realisation.
of this policy framework.

**Overall Policy**

**Government’s Fiscal Policy**

12. The Government’s fiscal policy continues to be determined by three main objectives namely: maintaining macroeconomic stability essentially by restraining public expenditures to available resources; redirecting resources from lower priority areas towards programs with the highest potential for poverty reduction; and reducing dependence on external resources by raising the revenue base in a sustainable manner without resorting to distortionary taxes.

**Decentralisation Principles and Objectives**

13. As part of Government’s strategy to improve service delivery, the Government, in 1993, agreed to implement a Decentralisation Programme whose broad objective is to promote and protect good governance and democratic participation for all citizens of Uganda. The Constitution and the Local Governments Act (1997) provide the framework for decentralisation. The framework underscores principles for democratic decentralisation and devolution of government functions and powers to the people at appropriate levels where they can best manage and direct their affairs. This framework further details the structures for the local government system and lays down several principles governing the co-ordinated devolution and transfer of functions, powers and responsibilities to local governments.

**Sharing Responsibilities**

14. The Decentralisation framework also defines the sharing of functions and services between the central Government and local governments. The Constitution requires the central Government to retain responsibility for national policy formulation, standards, inspection and other services that are best executed at national level. The local governments through their councils take responsibility for service delivery to communities within their jurisdiction. Since 1997, several Government ministries and departments have been restructured, under the Public Service Reform Programme (PSR2002), to harmonise their functions and structures with requirements under the decentralisation policy.

**Fiscal Decentralisation**

15. The Constitution provides for the devolution of financial powers to match the decentralisation of responsibility to local governments. The promulgation of the Constitution and the enactment of the Local Governments Act (1997) have greatly strengthened Government’s policy commitment to the implementation of fiscal decentralisation. Several institutions and bodies outlined in the law, such as Local Government Finance Commission (LGFC), the District Tender Boards, the Local Governments Public Accounts Committees and Internal Audit units at the districts have been established.
Gaps

16. While significant steps have been taken in the implementation of the government policy of fiscal devolution, substantial gaps still remain as outlined below:

17. Gaps in relation to general fiscal management:

The inadequacy of the underlying process and systems for fiscal management are a major hindrance to greater improvements in service delivery and Government's goal of reducing poverty. While the appropriate institutions are in place, the Government needs to strengthen these institutions to ensure effectiveness and efficiency of financial management;

Budget indiscipline is still a significant problem leading to loss/misappropriation of resources and undermines the Government's macro-economic reforms.; and

In order to have an understanding of the impact of Government's expenditure on service delivery and poverty reduction, there is need to strengthen the mechanisms and capacities for monitoring and evaluation through the collection and analysis of appropriate statistics. These mechanisms are weak, making it difficult to estimate the value of public expenditure and to evaluate the achievements of government's programs.

18. Gaps in relation to fiscal decentralisation:

District budgets have been difficult to execute, given unrealistic revenue and expenditure projections. The districts development plans have also been poorly formulated and not sufficiently attuned to the resources likely to be available for spending by the district authorities;

District staff structures are yet to be reviewed to address critical functional and programme needs at the districts. For many districts, these structures are inappropriate and inefficient. In addition, there exists in most of these cases, critical staff gaps within the existing structures. This situation has continued to be a major hindrance to improvements in service delivery in the local governments, with most unconditional grant resources flowing towards supporting these structures;

Local revenues have remained low for most local governments, resulting largely from the small tax base, low tax rates and poor administration of revenue collection;

Although the development budget is to be decentralised effective this FY, it is still largely under the control and management of the central government. This has meant that the transfer of financial resources has not matched the transfer of responsibility. In addition, the implementation of the equalisation grant as required by the Constitution will only commence modestly this FY;

Grants from Central Government have continued to flow mostly as conditional grants. This has meant that local governments have been constrained to implement their priorities with little discretionary control over recurrent budget funds. In addition, the local grant formula needs to be reviewed to promote more equitable sharing among local governments;

While the Constitution and the Local Governments Act (1997) provide the basic framework for decentralisation, a number of supplementary regulations and guidelines are yet to be reviewed and
updated to embrace fiscal decentralisation; and

The capacities within MoFPED, MoLG, LGFC, accounts and internal audit units at the districts and the Office of the Auditor General, in terms of staff, skills, facilitation, are not adequate to effectively carry forward the full fiscal decentralisation.

Government Strategy

19. The Government has formed a strategy to address constraints to fiscal devolution, effectiveness of public spending and to the overall improvements in service delivery under the decentralisation policy. Key elements of the strategy are detailed below.

Harmonisation of the legal framework

20. The Government will examine and revise legislation that have a bearing on the fiscal decentralisation in order to bring them in harmony with the Constitution and the Local Governments Act, 1997. The revision will cover, among others, the Public Finance Act (1964) which will be undertaken under the EFMP II and the Property Rates Decree of 1979, the Town and Country Planning Act, 1964, and the LGs Tender Board Regulations which will be addressed under the LGDP. Government expects to complete the revision of the Public Finance Act (1964) and the LGs Tender Board Regulations and submit to Parliament for enactment by December 2000. The government will similarly review other related regulations and guidelines.

Strengthening Public Expenditure Management and Control

21. Poverty reduction is a major objective of Government under decentralisation. In 1997, the Government launched the Poverty Eradication Action Plan (PEAP) in order to take concrete steps to reduce mass poverty and to strengthen the service delivery initiatives under decentralisation. The Government also agreed, under SAC III, to implement reforms to the management of public expenditure aimed at (i) improving fiscal discipline, accountability and transparency; (ii) introducing a stronger outcome orientation to the budget process; (iii) increasing the poverty focus of public spending; and (iv) strengthening public expenditure management under decentralisation.

Promoting Financial Discipline

22. The Government intends to a) upgrade the systems and structures of financial management and accountability, b) strengthen the monitoring/auditing of performance and c) establish mechanisms for sanctioning performance which falls below established standards. The Government will pay particular attention to the strengthening of the organs involved in promoting financial discipline including the Office of the Auditor General (OAG), Internal Audit department – MoFPED, Treasury Inspectorate department, the Ministry of Ethics and Integrity, Public Accounts Committee and Local Accounts Committees, Inspector General of Government (IGG) and the Directorate of Public Prosecution.

Decentralisation of the Development Budget
23. The Government has agreed on a policy to decentralise the Development Budget beginning FY1999/2000. The policy provides the necessary framework and steps in the process of devolution of development resources to local governments. The policy articulates the responsibilities of key players, namely central government (sector ministries, Ministry of Local Government and the Ministry of Finance, Planning and Economic Development), the local governments, and the Local Government Finance Commission (LGFC) in line with the Constitution and the Local Governments Acts (1997). The policy is framed within the principles that are key to sound fiscal management namely:

- Macro-Economic Stability - to ensure that a fully decentralised system does not cause financial instability in the country
- Transparency and Accountability
- Transfer of Responsibility to appropriate levels for effectiveness
- Access and Control of Resources using mechanisms spelt out in the Constitution namely; the Unconditional Grant, the Conditional Grant and the Equalisation Grant.

24. Over the next three to five years the Government, on recommendation of the LGFC, intends to reduce the amount of conditional grants and to provide more of the unconditional grants to local Governments. The Ministry of Local Government will lead the review of the local governments' capacities and systems necessary to manage the increase in unconditional grants. The Government will also review the local governments grant formula in order to promote more equitable sharing among local governments.

District Staff Structures

25. As part of the Public Service Reform (PSR2002) programme, a review of the district staff structures will soon be undertaken under the technical supervision of MPS on demand and in consultation with District Councils, aimed at assisting the districts to implement rational staff structures. This is expected to reduce the burden of employee costs over district budgets and to release more resources to service delivery programmes. This exercise will be co-ordinated by MoLG and is expected to be completed by 2000/01.

The Local Government Road Map

26. Government has also prepared a 'Road Map' to chart a strategy and action plan for the implementation of the decentralisation policy as contained in the 1995 Constitution and the Local Governments Act, 1997. The immediate objectives of the Road Map are to provide a strategy and modalities for:

(a) strengthening institutional capacity to ensure co-ordination and harmonization of systems and procedures between the center and local Governments;
(b) Improving the revenue base for Local Governments through reforming the tax structure for local governments and assisting the process for improved revenue generation;
defining a fiscal transfer system for the flow of central government resources to Local Governments;
(d) improving the financial management and accountability of Local Governments;
(e) ensuring good governance, including political accountability and popular participation;
(f) ensuring an adequate system of communicating information amongst stakeholders in decentralisation;
(g) co-ordinating donor support to decentralisation; and
(h) strengthening local government and the role of councils with respect to budgeting, planning, monitoring and accountability.

27. The Road will be reviewed to clarify and detail government strategy for mainstreaming the activities required for smooth implementation of decentralization policy within the MoLG and to strengthen the mechanism for monitoring the decentralisation programme. The revised Road Map will be issued by MoLG by June 2000.

28. The Government intends to implement a programme of actions under two projects namely: EFMP II and LGDP, to tackle the issues raised earlier in this letter and to operationalise some of the principles contained in the Road Map. Under EFMP II, the Government will address deficiencies in fiscal systems; strengthen financial management and discipline; implement aspects of decentralisation of the development budget relating to the policy framework and strengthen the capacity for monitoring and evaluation of service delivery. Under the LGDP, the Government will focus on elements that will strengthen the capacity of local governments for investment planning, budgeting and accounting as provided for in the Local Governments Act, 1997, and the Local Governments Financial and Accounting Regulations, 1998. The Government will enter into negotiation with other bilateral donors involved in the implementation of the Decentralisation Program to comply with the policy direction highlighted in this letter.

Implementation and Co-ordination Arrangements

Mandates of MoFPED, MoLG and other institutions

29. In 1997, the Government launched major reform initiatives in the entire public service aimed at improving public services under the umbrella of Public Service Reform 2002. The mission under this Public Service Reform Programme is to develop a public service which delivers timely, high quality and appropriate services at the least cost to the nation. The objectives of this programme are consistent with the overall macro-economic reform program, the aspirations of the PEAP, and the principles advanced by the Road Map and the effectiveness of fiscal transfers to local governments for the decentralisation program.

30. Under PSR2002, the Government agreed to re-organise and restructure ministries, government departments, commissions and districts in order to bring them in line with the principles of the reforms, decentralisation and good governance as contained in the Constitution and Local Governments Act, 1997. The Government has completed the first phase of restructuring which covered central government ministries. The Government intends to extend the exercise to other central government departments and commissions over the medium term. The exercise shall also be extended to districts through their initiation and participation and with objective of right rising the structures of Local Governments.
31. The restructuring of Government mandated the new Ministry of Finance, Planning and Economic Development (MoFPED) to manage and control public finances in a prudent and sustainable manner and to ensure efficiency and effectiveness of all spending. The ministry will also oversee the planning of national strategic development initiatives in order to facilitate economic growth and stability, eradication of poverty and enhancement of overall development. The MoFPED is therefore charged with the institution of measures and regulations for the control and management of public finances and the maintenance of a high level of accountability, efficiency and effectiveness of government spending.

32. The restructuring focussed on the need to strengthen the financial management and control functions in government. The Treasury department in the MoFPED was uplifted to a Directorate and the functions for government Internal Audit and Treasury Inspection were separated from government accounting with the creation of separate departments. More rational structures were also defined for accounting units within government ministries and departments.

33. The restructuring also saw the creation of a Budget Policy Department to provide stronger leadership in budget policy issues and to provide a home for coordinating expenditure management reform programs. The exercise further recommended the creation of an autonomous body for the management of National Statistics. The legal framework for the establishment of the Uganda Bureau of Statistics (UBoS) has been put in place. The Government is working towards the full establishment of the bureau and, the board to the bureau has already been appointed and inaugurated. The Government has also increased significantly budget provision to allow the bureau to meet the recurrent costs for the core programme. The Government will maintain this level of financing in the medium term. Government has also agreed to divest the department of Uganda Computer Services (UCS). The MPS is currently working out the detail plan for the divestiture. An interim strategy for UCS is however being developed. This interim strategy will provide the framework to enable UCS undertake its current on-going activities and to prepare the agency for the management of the anticipated computerisation of the financial management systems. The strategy will be reviewed after the completion of the on going Fiscal Management Systems (FMS) study. Capacity building elements of this strategy will be supported by EFMP II.

34. The MoFPED will, in the interim, carry on the Government planning functions until the establishment of the National Planning Authority (NPA). The nature and structure of the NPA is not known yet. Given that the EFMP II will support significant aspects of the planning function, the Government will consult with IDA to review the design of the project to ensure consistency with the NPA Act.

The Ministry of Local Government (MoLG)

35. The Government has retained the Ministry of Local Government as an autonomous Ministry in order to implement the mandated functions under the Constitution, the Local Governments Act, 1997 and to fully oversee the process of decentralisation.

36. The mandate of the Ministry of Local Government is to facilitate the development and management of self sustaining, efficient and effective decentralised government systems capable of delivering the required services to the people. The ministry, working with line ministries, will inspect, monitor and mentor
Local Governments. MoLG is also expected to co-ordinate standards as they relate to local governments and undertake the statutory role of developing and disseminating national standards on: a) accounting instructions and financial regulations for local governments, b) local government internal audit guidelines, tender board and public accounts regulations. MoLG will also undertake to play the role of advocacy for local governments and to co-ordinate all activities and resources between the central and local governments.

37. In consultation with LGFC and the NPA (which is yet to be established), the MoFPED will be charged with the overall financial management including the national budget allocations and transfer of resources to districts while the MoLG will have the responsibility to harmonise local government programmes for which these resources are being transferred and to work with line ministries to ensure their viability and sustainability. Under the decentralisation of the Development Budget programme, MoLG will support the process of strengthening the capacities of local governments to implement investment programs.

Other Institutions

38. Government recognises the key role of the Office of the Auditor General (OAG) in strengthening financial discipline and improving fiscal management. The Government will increase the Independence of the OAG. Several capacity building programs designed to strengthen the effectiveness of OAG and to extend this work to local governments will be implemented. Most of these programs will be funded through the Financial Accountability Programme to be financed by DFID. Under separate programmes, the Government will strengthen associated offices and organs including the DPP, IGG, the Ministry of Ethics and Integrity, Public Accounts Committee, the Local Accounts Committees and the use of such instruments as the leadership code designed to ensure financial discipline. The Government has also formed an Audit forum that brings together key institutions in ensuring financial discipline including OAG, Treasury, IGG, Ministry of Public Service and Local Governments and MoLG to share experiences and find ways to complement each others efforts.

39. Article 194 of the Constitution provides for the establishment of the LGFC and also lists it duties and functions. The functions of the Commission, interalia, include advising the President on all matters concerning the distribution of revenue between the central and local governments; advising local governments on appropriate tax levels to be levied; and recommend the amount to be allocated as equilisation and conditional grants to local governments.

Implementation Plan for the Decentralisation of the Development Budget

40. The Government has agreed on an implementation plan for the decentralisation of the development budget. Cabinet has directed the phased approach to the devolution of the development budget to allow the designing of the appropriate procedures and guidelines and to strengthen the existing capacity to manage the additional resources transferred to local governments. Local Government will be expected to live within a hard budget constraint, with expenditure contained within the available resources. The implementation plan will be the responsibility of the MoFPED, working closely with MoLG and in consultation with the LGFC and line ministries. Three phases are included in the plan for the decentralisation of the development budget:
Phase I: Will focus on designing the required procedures and guidelines for, a) interaction and coordination between central government, local governments and donors, b) identification, planning, appraisal, implementation and monitoring of programmes, and c) strengthening principles and modalities for operation of the equalisation grant, to foster the implementation of the decentralisation process. This phase, to be implemented in the first year, will also identify current and pipeline projects for which financing can be decentralised.

Phase II: Will initiate the transfer of resources for development budget earmarked for national priorities and discrete district priorities using conditional or unconditional grant transfer mechanisms. All new donor funded projects in decentralised sectors will be designed and agreed by districts, central government and donors following the established guidelines under phase I.

Phase III: Will review and concretise the implementation process and ensure that ultimately all resources (government and donor) are pooled together and channelled to districts through government grant system. Local governments will receive significant increase in unconditional grants as the systems and capacity for planning, budgeting and accounting improve.

41. The Government's policy on the decentralisation of the development budget spells out the procedures for handling new and existing projects. In the case of existing project portfolio, the Government has agreed that all projects that exist under schedule 2 and are national in nature will be decentralised at the start of the programme.

42. New projects under the same schedule will have their funds decentralised as transfers to local governments. All future donor support to local governments is expected to operate within these principles and guidelines set by the policy. During the first phase a co-ordination mechanism will be instituted to ensure that future donor support is channelled through agreed government grant mechanisms in consultation with the LGFC and for investment projects set by Local Government within the National Planning System. The Government will disseminate and strengthen the use of instruments for capturing donor financing among all agencies including central government ministries and departments. The Government will in particular ensure that all donor financing is channelled through the MoFPED.

43. In order to ensure continued sound fiscal management in local governments, the Government will strengthen the Local Government Budget Framework Paper (LG-BFP) process. The Budget Framework Paper (BFP) has been incorporated and used successfully in the national budget process consistent with the medium term expenditure framework. The BFP process was initiated in local governments for the first time in the financial year 1999/2000. The Government intends to further develop this process to ensure realistic and efficient planning and use of local government resources (recurrent and development) over the medium term. The Government will use the LG-BFP process to enhance the integration of the planning and budgeting cycle of local governments. Government is aware about the differences between the budgeting and planning processes at the center and LGs. In order to promote harmonization between the two processes the National Planning Act will spell out in detail the linkages of the BFP to the LGs planning and budgeting processes.

44. The Line Ministries and MoLG will expedite the development of minimum standards for service
delivery, which will guide the LGFC in the determination of equalisation grants given its role in advising the President on resource allocation to local governments. Equalisation Grants are intended to make special provision for the least developed districts dependent on the degree to which the district is lagging behind national average standard for particular service. EFMP II will finance annual National Service Delivery Surveys (NSDS) through the Uganda Bureau of Statistics, which will support the process of monitoring and evaluating performance against these standards of service delivery.

45. In order to facilitate the process of transfer and reporting, the Government will, under the EFMP II, harmonise the processes of budgeting and accounting between the central and local governments and bring them in line with the provisions of the Constitution and the Local Governments Act, 1997.

Integrated Sector Investment Plans

46. The decentralisation of the development budget will leave central government with the main responsibility of policy formulation, supervision, monitoring service delivery and offering technical guidance with respect to fiscal management as mandated in the Constitution. The Constitution provides for the establishment of a National Planning Authority (NPA) that will consolidate district plans into national development plans. In order to ensure harmony of Integrated Sector Investment Programs with the decentralisation policy, the process for the development of the central government plans by line ministries will be restructured to provide for more consultation with the local governments on the basis of shared responsibility. The role of line ministries will be limited to development of sector investment frameworks in consultation with local Governments. The line ministries shall monitor Local Governments compliance with the set standards defined by line ministries. Systems and institutional arrangements will be designed to facilitate appraisal, consolidation and monitoring of investment plans.

Local Governments Development Grant

47. Donor funds shall be transferred to local governments directly by MoFPED as conditional grants. The difference however, is that the conditionalities are limited to only the access criteria and to the functions and services of local governments mandated in schedule 2 of the Local Governments Act 1997. This access criteria is designed, inter-alia, to ensure financial compliance by local governments first and will be agreed on by Local Governments. Local Governments that may not be able to immediately access the grant as a result of the requirements of the criteria will be assisted to improve their capacities by accessing the capacity building fund through the LGPD. This strategy is expected to enable all local governments access the grant within the LGDP project period. The grant will increase the levels of resources to which Local Governments will have discretion to plan for the provision of their mandated services without prior determination from the centre and with no sectoral restrictions.

Other Implementation Issues

48. The Government will harmonise the fiscal processes and systems in relation to budgeting and accounting, across the central and local governments. Care will be taken to ensure that standards, transparent and inexpensive instruments and skills for planning, budgeting and accounting are used at all levels of government. This will be undertaken under EFMP II in order to ensure improvements in financial
control and information exchange.

Transitional arrangements

49. The Government is aware about the need to enhance capacity in the MoLG to fully undertake its mandate in respect of inspection, monitoring, mentoring and capacity building in Local Governments. This limitation in capacity is a hindrance to the intended programme to mainstream decentralisation activities in the ministry. The Government will address capacity constraints for the ministry under the LGDP. The Government is also aware that as a result of the decentralisation of the development budget, the ministry will also have to monitor investment programmes to ensure adherence to standards of service delivery. The ministry, in association with professional institutions, ULAA and NGOs will design and implement training programmes intended to further strengthen the investment capacity in the local governments. The execution of the ministry's mandate shall be carried out by the two directorates of the ministry namely Local Governments Administration and Local Governments Inspection.

50. The Government also recognises the lack of qualified accountants in public service as a serious impediment to financial management. The Government, through the Public Service Reform Programme (PSR2002) is designing a pay reform strategy, which will recognise and attract the professionals in various disciplines in the public service. The strategy is also expected to provide a programme intended to improve the staff pay levels significantly. The completion of pay reform strategy and the implementation of its recommendations may take a much longer time. In order to implement sound fiscal systems under the EFMP II, the Government will, in the interim, explore mechanisms, including twinning with other Governments, in order to hire expatriate qualified accountants. The government will formulate a strategy that will allow Local Governments to benefit from this interim arrangement. The Government will at the same time invest significantly in the development of the accounting cadre to completely fill the gaps in the government accounting, inspectorate and auditing functions by the end of the project.

Capacity Building

51. The strategy outlined in this letter present capacity implication for the institutions involved. Under EFMP II, the Government will pay particular attention to the development of capacity, in a sustainable way, in the areas of budgeting and accounting and overall fiscal management. Specifically, Government intends to make major improvements to the staffing in the accounting and auditing function and to strengthen professionalism. The Government will also address several deficiencies in capacity in relation to local governments institutions, in particular the MoLG, through the LGDP.

Co-ordination Mechanism

52. Government is aware of the need to harmonise all efforts geared to reforming and improving public service delivery in order to exploit areas of complementarity and avoid duplication. Government has accordingly set-up a structure under PSR2002 to provide the necessary co-ordination and harmonisation. The structure provides technical and policy co-ordination on the one hand and political advocacy on the other.
At the apex of the structure is the Sub-Committee for Cabinet chaired by the Vice-President. This has the responsibility to oversee the reform programme and to provide the necessary political direction.

The Cabinet sub-committee is supported by a Steering Committee chaired by the Head of Public Service with membership of Permanent Secretaries from MPS, MoFPED, MoLG, MoH, MoED, MoFA, and Secretaries of Commissions: Public Service Commission, Health Service Commission, Judicial Service Commission and Law Reform Commission. The Steering committee provides a mechanism for consultation across government and is charged with monitoring the progress of the reform programme, approving programme priorities and resource allocation. The committee reports to the Cabinet Sub-Committee through the Head of Public Service.

The third committee in the reform structure is the Project Managers Committee that brings together all managers at Permanent Secretary, Director or Commissioner level as appropriate, for the various programmes in the reform programme. The committee is chaired by the Deputy Head of Public Service/Secretary, Administrative Reform and has responsibility for sector policy development and designing work programmes. The committee reports on the progress of the reform programme to the Steering Committee through the Deputy Head of Public Service.

The reform programme structure is further supported by the Administrative Reform Secretariat housed in the Ministry of Public Service. The Secretariat provides the engine for the reform programme and in order to give it the necessary power and authority, the Government decided to have the Deputy Head of Public Service, at the level above the Permanent Secretary, as the head.

The government will further review the composition and the mandate of the reform structure of PSR2002 with a view to strengthen the linkage between the overall public service reform programme and the decentralisation programme. In this connection, the Government will seek a stronger role for MoLG and the participation of the local authorities in the reform programme. The review shall also provide for donor consultation (as stakeholders in the programme) where appropriate in order to ensure continued dialogue on areas of interest.

Co-ordination of the two Projects

Given the nature of the two projects, EFMP II and LGDP, and in order to exploit maximum benefits, a committee, chaired by Director/Budget with membership from MFPE and MoLG, has been established to provide the technical co-ordination and harmonisation of the two projects. The committee will ensure that there is no overlap, between the two projects, in terms of responsibilities and scope of work especially with respect to local governments. The committee will co-ordinate the activities, their outputs and timing under the two projects in order to optimise benefits. The two projects still fall within the umbrella of Public Service Reform 2002 for policy co-ordination and political advocacy. The committee will be different from the management/implementation committees within each of the projects but will be designed to effectively take forward the two projects and to ensure consistency in outputs and the achievement of program objectives.

This committee will be reviewed in terms of mandate and memberships with a view to include as members, other key players in the program including local government associations. Specifically, the
committee will be restructured to create a forum for harmonising project activities and ironing out programme bottlenecks. The committee will be expanded to include Local Governments, Program/Project managers of other donor funded projects which are involved with the implementation of decentralisation so as to ensure synergy. The Committee may occasionally invite the participation of donors to participate in the committee meetings. In order to ensure the linkage with the structure under the Public Service Reform programme, the Director/Budget will raise issues from the committee at the meeting of Project Managers under the PSR2002.

Procedures and Processes

60. The procurement mechanisms under the two projects, EFMP II and LGDP, will be guided by two principles. Procurement for activities at the centre will be in line with the current agreement between the Government of Uganda and IDA, using programme procurement committees and the Central Tender Board or the New Government Procurement System as applicable. In the case of local governments, procurement will be handled through District Tender Boards in line with the rules and regulations for the local governments' procurement process.

Monitoring and Evaluation

61. The Government strategy to address policy gaps outlined in this letter is designed to make a significant contribution to the decentralisation process. The Government will strengthen the mechanisms for monitoring and evaluation of the decentralisation programme. This will assist Government to follow the challenges in implementation of the programme and to make incremental adjustments to ensure the full realisation of the objectives. The Government intends to move quickly to mainstream the decentralisation activities under MoLG and to strengthen the ministry to undertake the monitoring and evaluation of the programme. The Government will also review and strengthen the fiscal monitoring under the MoFPED.

Accounting and Budgeting of Expenditure

62. Current experiences for the devolution of the development budget under UNCDF/UNDP funded district development program is such that money is transferred from a special account controlled by the MoLG to pilot districts and respective sub-counties on a quarterly basis after submission of a satisfactory accountability statement. Expenditures eligible under the transfer are only those investments that have been included in district development plans. Management and accountability of the transferred funds is the responsibility of Chief Administrative Officer (CAO) who is the accounting officer at the district.

63. Under LGDP, GOU intends to mainstream transfers to districts by abolishing the use of special accounts. The local government development funds will therefore flow directly from the treasury to the districts against realistic quarterly work-plans. The role of MoLG shall be to build capacity in local governments for planning, accounting, budgeting and programme implementation as mandated under sections 96-101 of the Local Governments Act, 1997.

64. The Government's efforts under EFMP II will be directed to strengthening the financial systems to improve information flows, financial control and reporting. The Government intends to modernise financial
management systems through computerisation and to strengthen the ethical aspects by introducing professional training for the accounting cadre at the centre and in local governments. The Government also intends to harmonise standards for recording of financial data and reporting by implementing a suitable financial classification system across the central and local governments. It is expected that the implementation of modern financial systems and new classification systems will strengthen the process of accounting and control of funds.

Programmes Financing and Design Issues

65. A number of the priority areas identified in the Road Map are already receiving support from IDA and other donor partners. Important among these are the Institutional Capacity Building Project, financed by IDA and special assistance by DANIDA and UNCDF to test and refine procedures for decentralised financing and planning for local government services mandated under the Local Government Act 1997.

66. Government is aware that several constraints to fiscal management and to effective service delivery still remain to be addressed. The two projects, Second Economic and Financial Management Project (EFMP II) and the Local Government Development Programme (LGDP) have been designed to address constraints related to fiscal imbalances, procedures and capacities.

67. Government has designed the two programmes to deal with some of the provisions of the Road Map and to confront the fiscal, procedural and capacity problems. I will now first describe the EFMP II, since its main focus is the fiscal soundness of financial procedures, processes and systems. The LGDP will apply and extend the work of the EFMP II at the Local Government level by supporting the capacity of the Ministry of Local Government to assist Local Governments to operationalise and comply with the Local Governments Act, 1997 and, on a pilot basis to assist local governments to define and test procedures for detailed planning and use of devolved development funds.

Second Economic and Financial Management Project (EFMP II)

68. The overall development objective of EFMP II is to improve the effectiveness and efficiency of public expenditure with the goal of enhancing the quantity and quality of public services delivered to the people of Uganda. EFMP II will be concerned with fiscal capacities, systems and fiscal structural deficiencies. It is expected that EFMP II will make significant contribution to Government’s objective of poverty reduction through increasing the poverty focus of spending, strengthening the public expenditure management under local decentralisation, improving accountability and transparency of public spending and finally preparing Government for the introduction of Outcome Oriented Budgeting (OoB).

69. EFMP II will have three main components. The first will focus on a) strengthening the budget policy and planning process with special emphasis on the Budget Framework Process both at the centre and the Local Government levels, b) contributing to refinement of the rules and access procedures for the development budget and c) building the necessary capacity in MoFPED to support the changes in the budget process. The second component will focus on capacities for financial management and accountability, including improvements in fiscal management systems, and auditing, both at central and Local Government levels. A third component aims to strengthen the Uganda Bureau of Statistics so that monitoring of service delivery against public spending can be improved. Through this component there will
also be support for the establishment of service delivery standards and the Annual National Service Delivery Survey process.

70. These activities under EFMP II are crucial in order to improve Government's performance on service delivery, increase fiscal accountability and transparency, and strengthen macro economic stability.

Local Government Development Programme (LGDP)

71. The LGDP will primarily be concerned with the design of decentralised financing, planning and investment management procedures to ensure that as the devolution of development funds on a national scale starts, Local Governments are well placed to efficiently and effectively utilise these resources to meet their mandated service responsibilities. The LGDP will focus at both central and Local Government levels. At the centre, one component of the program will assist the Ministry of Local Government (MoLG) and the Local Government Finance Commission (LGFC) to operationalise their roles under the Constitution of 1995 and the Local Governments Act, 1997. Government is aware that the success of decentralisation depends on the ability of the centre to mentor and monitor Local Governments in accordance with well-defined procedures and standards. It is important that the centre is capable of mentoring Local Governments to ensure that they apply their procedures for integrated planning and budgeting and encourage private sector involvement in the production and maintenance of services.

72. LGDP will also provide development funds to local governments for provision of mandated services within schedule 2 of the Local Governments Act. The funds shall be accessed by those local governments, which meet the access criteria. Performance of local governments shall be reviewed twice every year. MoLG shall provide the necessary capacity building support to those weak local governments in order to improve their performance in line with standards set in the Local Governments Act, 1997, Local Governments financial and accounting regulations, tender rules and regulations and other attendant laws, regulations and guidelines. These access conditions and measures are designed to ensure compliance with established local government regulations and to reward good performance by Local Governments. Government has designed a Participatory Planning, Allocation and Investment Management System and is testing this in a variety of Local Governments situations, in urban and rural areas, in a range of socio-economic conditions and at all levels in the Local Council system. The LGDP, together with the District Development Project funded by UNCDF/UNDP and the Uganda Local Government Development Fund financed by DANIDA, will ensure therefore that practically tested procedures are in place ahead of full-scale devolution of development funds.

73. LGDP will also finance the monitoring and evaluation activities for program implementation to underpin preparation of the rollover of implementation after three years as a move to the devolution of the Development Budget to all Local Governments.

Conclusion

74. I would like to take this opportunity to reiterate Government's commitment to the implementation of the policies, programmes and initiatives outlined in this Letter of Sectoral Policy. In particular, I am referring to the commitment to fiscal devolution and strengthening of public expenditure control, to establish a
performance and results oriented local government system, to ensure accountability and transparency in fiscal transfers between the centre and local governments. The Government has also a strong resolve to promote best practices in the delivery of services to the population on a demand-driven participatory basis. I must also emphasise that consolidation of the country's remarkable achievements in the local and central government reform programme depends crucially on progress in devolving fiscal resources to local governments and on instituting systems to promote greater accountability and transparency.

75. On behalf of the Government of the Republic of Uganda, I wish to thank IDA for the assistance already provided both through the First Economic and Financial Management Project (EFMP I), the ongoing capacity building project (ICBP) and through the preparation facilities for the EFMP II and the LGDP which have supported our work in designing these two new programmes. I trust that this request for additional assistance through the proposed EFMP II and LGDP will receive your favourable consideration.

Yours sincerely,

Gerald M. Ssendaala
Minister of Finance and Economic Development