EN

THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX 3

of the Commission Decision on the financing of the Annual Action Programme 2019 in favour of the Republic of Uganda

Action Document for "Fiscal decentralisation and service delivery"

1. Title/basic act/ CRIS number	Fiscal decentralisation and service delivery CRIS number: UG/FED/041-736 financed under the 11th European Development Fund (EDF)	
2. Zone benefiting from the action/location	Uganda The action shall be carried out at the following location: Kampala and Districts of Uganda	
3. Programming document	National Indicative Programme (NIP) 2014-2020 for Uganda	
4. Sustainable Development Goals (SDGs)	Main SDG: SDG 16 - Promote just, peaceful and inclusive societies Other significant SDGs: SDG 5. Achieve gender equality and empower all women and girls and in particular to its targets, SDG 8. Promote inclusive and sustainable economic growth, employment and decent work for all and SDG 10. Reduce inequality within and among countries within and among countries.	
5. Sector of intervention/ thematic area	Good Governance	DEV. Assistance: YES[1]
6. Amounts concerned	Total estimated cost: EUR 71 300 000 Total amount of EDF contribution: EUR 41 300 000 of which EUR 32 000 000 for budget support and EUR 9 300 000 for complementary support. This action is co-financed in parallel by the Government of Uganda for an indicative amount of EUR 30 000 000.	
7. Aid modality and implementation modalities	Budget Support **Direct management** through: - Budget Support: Sector Reform Performance Contract (SRPC) - Grants **Indirect management** with the Government of Uganda	
8 a) DAC code(s)	Main DAC code : 43010, Multi-sector aid 100 % Sub-code 1: 1511 (Public Financial Management) Sub-code 2: 15112 (Decentralisation and support to subnational Government) Sub-code 3: 15170 (Women's Equality organisations and institutions) Sub-code 4: 16020 (Employment Creation)	

[1] Official Development Assistance is administered with the promotion of the economic development and welfare of developing countries as its main objective.

b) Main Delivery Channel	Channel: 12000 – Recipient Government			
9. Markers (from CRIS DAC form)	**General policy objective**	**Not targeted**	**Significant objective**	**Principal objective**
	Participation development/good governance	☐	☐	x
	Aid to environment	x	☐	☐
	Gender equality and Women's and Girl's Empowerment	☐	x	☐
	Trade Development	x	☐	☐
	Reproductive, Maternal, New born and child health	☐	☐	☐
	Disaster Risk Reduction	☐	x	☐
	Inclusion of persons with disabilities	☐	x	☐
	Nutrition	x	☐	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity	x	☐	☐
	Combat desertification	x	☐	☐
	Climate change mitigation	x	☐	☐
	Climate change adaptation	☐	x	☐
10. Global Public Goods and Challenges (GPGC) thematic flagships	Rights-based human development for the working poor (GPGC thematic flagship programme)			

SUMMARY The overall objective of the action is to support progress towards SDGs through equitable and inclusive development. Its specific objective is to improve equitable service delivery at sub-national level, contributing to social development and social cohesion. Restoring, maintaining or increasing equitable local government (LG) service delivery outcomes within a dynamically evolving context (e.g. population growth, jobless growth, refugees, and climate change) requires continued improvements in the service delivery performance of Local- and Lower Local Governments. Such improvements are linked to the availability of adequate resources, their equitable allocation and efficient use, as well as to solid accountability mechanisms. The expected results of the action include (1) Restored adequacy in financing of service delivery, (2) Ensured equity in allocation of funds for service delivery, (3) Improved efficiency of Local (LGs)- and Lower Local (LLGs) Governments in the delivery of services and (4) Enhanced accountability for local service delivery. The proposed action contributes to Uganda's progress towards SDGs 5, 8, 10 and 16[2]. It is aligned with the "People - Human development and dignity " and "Prosperity - Inclusive and sustainable growth and jobs " themes of the Framework for Action of the "New European Consensus on Development[3] ". The present action combines Budget Support with three different complementary measures, including support to the implementation of public finance management (PFM) reforms, further strengthening the

2 SDG 5: Gender equality, 8: Decent work and economic growth, 10: Reduced inequalities and 16: Peace, justice and strong institutions.

3 OJ C 210 of 30.6.2017

inter-governmental fiscal transfer system and sub-national PFM. The action is designed and will be implemented in line with a gender responsive - rights based approach, with the action's overall objective aimed at the progressive realisation of rights, by building the capacities of duty-bearers to meet their obligations and of rights-holders to claim their rights, while applying gender and rights based approach standards and principles.

1 CONTEXT ANALYSIS

1.1 Context Description

Fiscal decentralisation is positively related to service delivery outcomes where local authorities have sufficient capacity and solid accountability systems. This is of particular importance in the context of Uganda where almost all districts (and in particular vulnerable ones, including refugee hosting communities) need to enhance essential public services, such as for health and education and basic infrastructure to one of the fastest growing populations in the world.

Uganda's growth is jobless and exclusive because it does not generate sufficient income opportunities for the rapidly increasing labour force and the jobs available are insufficient to benefit people and their well-being. In order to identify the right measures and initiatives to address this, the Government of Uganda needs adequate labour statistics and their analysis in the broader socio- economic context.

At the beginning of this century, Uganda, even though one of the poorer countries in Sub-Sahara Africa, was an example of successful decentralisation, with a well-defined local government (LG) structure that had the primary mandate and respective budgets for providing a substantial part of public service delivery. However, inadequate attention was paid and insufficient resources allocated to strengthening capacities and structures to foster local economic development and employment creation. While their functions have remained more or less the same, due to recentralisation tendencies and related LG budget cuts, LGs have, in practice, partially lost their developmental role and have become de-facto administrative units of central government, i.e. devolution turned into de-concentration.

Uganda's Inter-governmental Fiscal Transfer Programme aims to remove barriers to the implementation of the Decentralisation Policy as enshrined in the Constitution of Uganda and Local Government Act Cap 243 and to empower LGs to deliver services in line with the original intentions of decentralisation. However, the further creation of new LGs brings up the cost of service delivery in the country, as well as the cost of achieving equitable and adequate LG transfer allocations. It also makes it more difficult to build local economies of scale, thereby undermining both local economic development and service delivery.

The Intergovernmental Fiscal Transfers (IGFT) constitute the most significant part of the overall LG financing arrangements, currently financing approximately 95 % of LG budgets. This particular element of the Fiscal Decentralisation Architecture is substantially described in the Local Government Act (1997) and the Constitution (2005). Article 193 of the Constitution provides for three types of intergovernmental fiscal transfers: Unconditional grants (minimum grant that shall be paid to LGs to run decentralised services), Conditional grant (funds to LGs to finance programmes agreed upon between Central Government and the LGs) and Equalisation grant (funds intended to subsidise or make special provisions for the least developed districts, based on the degree to which a LG unit is lagging behind the national average standard for a particular service). The District Discretionary Equalisation Grant (DDEG) corresponds to the latter category. The DDEG was created to:

- Consolidate existing grants to improve the adequacy of discretionary LG funding. The DDEG is the only development grant for LGs that is not earmarked to a particular sector which allows LGs to plan and prioritise allocations for improved service delivery according to local needs;

- Harmonise existing rules on grant allocation into one set of guidelines to provide greater discretion for LGs to allocate resources to local service delivery needs in line with their mandate and national priorities;
- Distribute resources more equitably across and within LGs, so that those areas which are less well-off are able to catch up with other areas - as per the Constitution Article 193d;
- Improve LGs' capacities and systems for provision of quality services and incentives for performance especially within the area of improved accountability and transparency.

Allocation of DDEG is based on a basic- and a performance-based component. The basic component uses criteria like population and poverty prevalence. In addition, and due to historical reasons, the grant also has a small conflict related criterion, which aims to allocate more funding to areas most hit by conflicts. The DDEG is adjusted in accordance with results from the annual LG performance assessments in a manner that provides LGs a fiscal incentive for improvement of their performance in areas of importance for local service delivery as per the objectives of the grant reforms.

1.2 Policy Framework (Global, EU)

At global level, the UN Agenda 2030 and the SDGs, the Paris Agreement and the Addis Ababa Action Agenda in 2015, are the main policy frameworks of EU external aid. In October 2018, Uganda launched, together with the UN system in the country, a National Roadmap for the implementation of the SDGs. The proposed action contributes to Uganda's progress towards SDGs 5, 8, 10 and 16. It is also consistent with the "People - Human development and dignity " and "Prosperity - Inclusive and sustainable growth and jobs " themes of the Framework for Action of the "New European Consensus on Development". The new Consensus recognises the central place of budget support in fostering partner countries' efforts towards achieving the SDGs. Budget support can be used for multi-sector policies and programmes which makes it a key instrument for strengthening service delivery. Furthermore, the policy dialogue that is inherent to budget support contracts is a strong tool to support partner governments to better articulate inclusive development and service delivery goals. The EU policy framework highlights the importance of gender equality for the achievement of the SDGs and makes women's and girls' rights, gender equality, the empowerment of women and girls and their protection a priority across all areas of action, in line with the EU's Gender Action Plan II (GAP II)[4]. The action will contribute to the GAP II's thematic priorities.

1.3 Public Policy Analysis of the partner country/region

The Constitution of the Republic of Uganda Chapter 11 and Local Government (LG) Act Cap 243 provide for decentralisation with the objectives of: (i) increasing people's participation in decision-making;
(ii) assisting in developing people's capacities; and (iii) enhancing Government's responsiveness, transparency and accountability. The Constitution, Article 193 defines how to fund the decentralised services by transferring the resources as grants to the LGs.

In 2002, Cabinet approved the Fiscal Decentralisation Strategy (FDS). The FDS was based on a comprehensive review of the issues and challenges with the system of intergovernmental fiscal relations. However, to date, the Government of Uganda has only partially implemented the FDS. Subsequent reviews note that capacity building components of the FDS were very successful,

[4] SWD(2015)182 final of 21.9.2015

leading to greater efficiencies in budgeting, accounting and reporting, but that many of the principles of the FDS were not adhered to. Notably, the following interlinked issues emerged: (i) An inadequate vertical allocation from Central Government to LGs; (ii) An increase in earmarked conditional grants leading to fragmentation of the intergovernmental fiscal transfers; (iii) Fewer and conditional resources which led to a loss of meaningful discretion at the LG level reducing their ability to respond to local demands; (iv) Fewer and conditional resources also led to the emergence of inequities in the horizontal allocation of resources across LGs; and (v) Fewer and conditional resources also provided poor performance incentives for LGs.

The Intergovernmental Fiscal Transfer reform strategy is coordinated by the Ministry of Finance, Planning and Economic Development (MoFPED) in collaboration with the Local Government Finance Commission, the Ministry of Local Government, the Office of the Prime Minister and line ministries which effect transfers to LGs. This reform has been implemented in different phases to enhance efficiency and decrease a proliferation of grant transfers from central to LG level: (1) Interim consolidation of LGs' transfers where a number of Sector Conditional Grants were collapsed from 58 in FY 2014/15 to 13 in Fiscal Year (FY) 2015/16; (2) Reform of transfers for FY 2016/17 which included: (2.1) Consolidating and redesigning development discretionary transfers leading to the creation of the Discretionary Development Equalisation Grant (DDEG); (2.2) Revising the allocation formulae and principles for grants to LGs; and (2.3) Reviewing guidelines for sector transfers and establishing budgeting requirements, (3) Reforming frameworks for accountability and strengthening incentives for performance, and (4) Fiscal Decentralisation Architecture & Share of Transfers.

After the consolidation, five different sets of grant guidelines were replaced by a common one: Whereas the District Discretionary Equalisation Grant (DDEG) still has a number of "windows ", all windows follow harmonised guidelines. A significant number of Local Governments (LGs) have not benefitted since financial year (FY) 2015/16 from an increase in DDEG grant transfers. Allocation of resources is also made to Lower Local Government (LLGs), namely sub-counties, town councils and municipal divisions) to enable them to implement wealth creation and livelihood improvement programs and operate as corporate entities.

Institutional arrangements for the management of the DDEG were established as part of the IGFT reform. Under the leadership of the Office of the Prime Minister, the Government of Uganda has designed a system for assessing the performance of LGs. To date, two Local Government Performance Assessment exercises have been completed in 2018. The size of the DDEG has significantly increased.

Creating employment is a major objective of Uganda (as expressed in the 2011 National Employment Policy (NEP)) and LGs can play a key role in launching initiatives and employment governance (e.g. pro-employment planning and budgeting). However, this is currently hampered by a lack of a credible employment strategy and sufficient data that could support decisions and actions in this area. This topic is singled out in this action as an important thematic area, because there is a possibility to exploit synergies with other development partners who aim to work on employment governance. Contributing to develop a credible sector strategy would go a long way in strengthening LGs' initiatives towards employment creation. To mainstream existing policies, laws and guideline with employment objectives, the NEP was developed by the Ministry of Gender, Labour and Social Development in 2011. The NEP provides for a National Employment Council to coordinate, guide, streamline and monitor its implementation. It proposes a framework for an environment conducive to employment creation in labour absorbing economic sectors. The NEP implementation requires greater technical capacity and budgetary means than those currently available as well as enhanced labour market information analysis.

There is an increased representation of women at local government level (45 % in 2018). However, few women are appointed at the highest positions in the districts where there is no affirmative action policy: only eleven out of 112 chief administrative officers are women, and only two out of 112 district chairpersons are women (2015). The Ministry of Gender, Labour and Social Development is tasked with advancing gender equality in Uganda and established the 2014-2017 Gender Equality Strategy which addresses barriers to gender responsive sustainable development. The Uganda Gender Policy (2007) outlines the State's commitment to gender equality and gender mainstreaming at all levels of the government.

1.4 Stakeholder analysis

The Ministry of Finance, Planning and Economic Development, the Office of the Prime Minister and the Ministry of Local Government hold overall responsibility for inter-governmental grant-transfers to Districts, including the District Discretionary Equalisation Grant (DDEG). The Fiscal Decentralisation Steering Committee provides strategic direction and policy guidance to the design and implementation of all aspects of Uganda's fiscal decentralisation reform. It includes the Permanent Secretary/Secretary to the Treasury (Chair), Director Budget (Secretary) and the Permanent Secretaries of the Ministries of Health, Education & Sports, Water & Environment, Public Service, Land, Housing & Urban Development, Works & Transport as well as the Secretary of the Local Government Finance Commission. It is responsible for (i) the approval of the Local Government (LG) Performance Assessment Manual and Annual LG Performance Assessment Results, the (ii) final approval of the grant allocation formulae and (iii) oversight to the achievement of results relating to Uganda's Intergovernmental Fiscal Transfer Reform.

The Fiscal Decentralisation Technical Committee (composed of representatives of the Ministries of Finance and Local Government, sector ministries as well as the Local Government Finance Commission and the Office of the Prime Minister, who handle inter-governmental transfers at a senior level) oversees and coordinates (i) the implementation of the grant allocation formulae to ensure equitable allocation of funds across LGs, (ii) releases to local governments, ensuring timeliness, (iii) technical review and verification of LG performance assessment manuals, as well as results and applications of the results during the allocation of grants and (iv) the handling of grievances related to LG transfers and results of the LG performance assessment.

The Equal Opportunities Commission (EOC) has built strong capacity and has demonstrated its significance through the publication of the annual Equal Opportunities report; promoting equity and social inclusion in public service delivery. The role of the EOC has been critical in enhancing equity in service delivery and strengthening social accountability across all sectors. The equity certification and annual EOC report have enhanced budget advocacy. In light of fiscal constraints and competing priorities, the EOC is amplifying the voice of civil society and the public for stronger accountability and equitable use of public funds. It is foreseen to link the EOC and the action's contribution to the pooled basket fund for Public Finance Management Reform (see chapter 5.4.4) to enhance assessment mechanisms for selected (high-impact) votes and programmes. The Ministry of Gender, Labour and Social Development is the sole responsible body for the Social Development Sector and will be a key stakeholder for employment governance, aiming at decent and productive employment and job promotion. It is also the Ministry tasked with advancing gender equality in Uganda. The Ministry of Finance, Planning and Economic Development's Budget Directorate is linked to Gender and Equity Budgeting through its role of steering Uganda's transition to Programme Based Budgeting.

Civil Society Organisations are, as of yet, insufficiently represented in several Sector Working Groups, undermining their ability to advocate for the participation of men and women, including marginalised groups, in local planning and budgeting processes.

1.5 Problem analysis/priority areas for support

Mainly due to the lack of appropriate funding, the capacities of local governments (LGs) to implement their service delivery mandate have substantially declined over the past ten years, which has affected their performance. To ensure grants continue to be allocated in an equitable manner, the Government will need to strengthen management of changes to the grant framework and allocation formulae. Over the last two decades, LG revenue has increased by very little in nominal terms and declined dramatically in relative terms. Funding cuts are also related to the fact that service delivery outcomes are hard to measure and often remain unknown. There is a considerable amount of variation in revenue collection across different administrative units. Urban/rural inequities have emerged over time and, in particular, due to the creation of new Municipal Councils and Districts. The significant differences in per capita levels of revenue collection in rural and urban LGs raise concerns about the level of financing for rural LGs, where the vast majority of the population currently resides.

Weaknesses in planning, budgeting and procurement at LG level, as well as poor coordination in budget planning between local and central government ministries, mean that limited resources are not well targeted towards needs. To a large extent, local-level needs are addressed in the preparation of plans and budgets of central level line ministries undertaking procurements on behalf of LGs. Poor working environments, lack of transport, office space, absence of supporting equipment and software, as well reduced connectivity, create a challenging environment for local government administrations. Especially units in hard-to-reach areas and hard-to-stay districts experience a high attrition rate of staff attempting to work under such conditions. The Auditor General's 2018 Report highlighted that Uganda's civil service is affected by a large staffing gap at LG level (overall below 40 %). According to the 2017/18 performance assessment, only 2 % of LGs had filled all Head of Departments positions. Inadequate staffing and sub-optimal performance management is one of the factors explaining underachievement by the LGs as those which were better staffed performed relatively better. Service delivery at local- and lower local government level is also affected by a lack of capacity to plan and budget for cross-cutting themes (e.g. gender, employment, disaster preparedness, migration) that are essential for Uganda's equitable and sustainable development:

The PFM Act 2015 requires that budgets of LGs are gender and equity responsive in order to obtain a Certificate of Compliance, but both planning and accountability systems in place are not conducive to identify high-impact budgetary outputs and outcomes for reducing gender gaps, such as the extremely high incidence of gender-based violence, violence against children and school enrolment disparities. Less than 60 % of girls aged 15-18 have completed their primary education and in some Districts (e.g. Moroto) as few as 6.4 % of girls finish their primary education. The World Bank estimates that *"ending child marriage"* could generate by 2030 up to USD 2.7 billion in annual benefits from lower population growth and a reduction in rates of under-five mortality and stunting for young children. Women's earnings would be higher if they could avoid marrying early.

Uganda's Employment Policy (2011) is currently not implemented at LG level, as it is based on insufficient and/or inappropriate labour statistics and ad-hoc analysis that does not allow sub-national labour market information analysis to inform local job creation interventions. Uganda currently has a labour force survey, but it is underfunded and the sampling, as well as the questionnaire and indicators collected, are too weak to be representative at sub-national level.

The limited funding or total lack thereof at LG level directed towards disaster management, preparedness and prevention has rendered the implementation of the District Contingency Plans highly improbable. The 2015 PFM Act (Article 27) provision for Contingency Fund is not available for funding disaster prevention and preparedness and the Department of Disaster Preparedness' (Office of the Prime Minister) Budget is extremely small. With the introduction of the Comprehensive Refugee Response Framework, LGs have been empowered to assume their role in the refugee response. However, district budgets are based on data that does not take into account refugee populations and there is little integration of refugee population in the determination of district indicative planning figures.

Information is not readily available on resources received by service delivery units. The Integrated Financial Management System (IFMS) can detail resources received by service delivery units by name but not by location/region rendering a detailed report from IFMS difficult. Whilst the major service delivery Ministries, Departments and Agencies (MDAs) could compile such reports, these are not produced. The Economic Policy Research Centre has the responsibility for conducting Public Expenditure Tracking Surveys (PETSs), though these have not been carried out to any significant degree in the last seven fiscal years. The last significant PETS was done for the agricultural sector in 2012.

Under the leadership of the Office of the Prime Minister, the Government of Uganda has designed a system for assessing annually the performance of Local Governments (LGs). To date, two LG performance assessment exercises have been completed. The extension of this assessment to the lower local (sub-county) government level is yet to be designed and tested. One of the main challenges is the inability of current PFM systems (IFMS, Programme Based Budgeting) to capture lower LG level outputs. Annual- and medium term work plans, budgets and performance information at lower LG level is not accessible in the public domain, which significantly weakens the accountability for local service delivery.

1.6 Other areas of assessment

1.6.1 *Fundamental values*

Restrictions of Non-Governmental Organisations (NGOs) through the 2010 NGO Act, the underfunding of the NGO Bureau and a hostile atmosphere towards Human Rights Defenders currently constrain civil society's contribution to Uganda's development. Uganda has ratified the majority of UN Human Rights and anti-corruption conventions (with the exception of the Optional Protocol to the Convention against Torture and the second Optional Protocol to the International Covenant on Civil and Political Rights). Uganda, however, is behind schedule on its reporting obligations for many of these treaties. The constitutional and legal framework is largely in place for protection of women's and children's rights, but considerable challenges in the implementation of the laws remain, particularly as regards effective child protection. Gender based violence, child labour, child abuse, human trafficking and domestic violence against women and children remain serious problems in Uganda.

Birth control measures are often still a taboo or too expensive, whilst the population growth is one of the highest in the world. Sexual and Reproductive Health and Rights are still a challenge in Uganda as is juvenile justice and there are serious breaches of children's rights in schools, homes and places of detention. In spite of Universal Primary Education, young girls continue to drop out of school due to a number of factors, including the lack of sanitary pads. Women's representation in Parliament is relatively high. Deeply rooted patriarchal traditions remain and many customary laws discriminate against women in adoption, marriage, divorce, inheritance, and land rights. Some women, especially the young and unemployed, become victims of human trafficking. Sexual- and gender-based violence remains prevalent in all parts of the country, especially rural areas. The EU-UN Spotlight Initiative seeks to address the latter. In 2018, Uganda occupied place 117 in the World Press Freedom Index, down by five places.

The right to fair trial is enshrined in the Ugandan Constitution. However, in accessing formal justice mechanisms, ordinary citizens still face the complexity of procedures, widespread corruption, lengthy delays, and high costs. A national legal aid policy and law has not yet materialised. A large proportion of prisoners are on pre-trial detention (51.42 %) which exacerbates congestion in places of detention (currently at 224 %). The Uganda Human Rights Commission (UHRC) criticised the partisan approach and heavy handedness of security services and the restrictive enforcement of laws relating to public order, freedom of speech and association. In successive years, the annual report of the UHRC has implicated some Justice, Law and Order institutions (which include the Police and Judiciary) as the main human rights violators. While a 2.1 % reduction in the culpability of JLOS institutions for human rights violations before UHRC was registered in the 2017/2018 period, the current 43.9 % remains high.

Inequality has increased in Uganda since the mid-1990s, and the country is also slipping back on reducing poverty rates despite significant gains made in the last decade. The gap between haves and have-nots is a potential source of tensions, especially among the youth, who have a hard time finding decent jobs. In general, land-grabbing and unresolved matters of land ownership are causing constant localised friction, which can also trigger broader political conflict. Regional inequalities in Uganda are high, with the Northern part of the country still lagging behind after decades of violent conflict. Additional tensions are caused by Uganda hosting 1.2 million refugees, mainly from South Sudan and the Democratic Republic of Congo (DRC). The potential of conflict over land use between refugees and host communities exists, despite all stakeholders trying to address this through improving resilience of the refugee hosting areas. Tensions between and within refugees and host communities could increase if underfunding of the refugee response undermines services provided to the refugees and their hosts, or if there is a large influx of new refugees.

1.6.2 *Macroeconomic policy*

Macroeconomic policies are supportive of economic activity, but economic growth needs to become more inclusive and prospects are closely linked to the growth dividend from public investment and investments in human capital. Growth reached 6.1 % in FY 2017/18 and could reach 6.3 % in FY 2018/19, though inadequate rainfalls and regional tensions are a risk to the outlook. Over the medium term, growth could range from 6 % to 7 % if infrastructure and oil sector investments proceed as planned. Currently, most of the jobs are created in the informal economy. Uganda needs to create over 600,000 jobs per year to match current population growth of over 3 %. This requires more inclusive growth that better contributes to formal job creation.

Public Investment reached 8.9 % of gross domestic product (GDP) in FY 2017/18 and is envisaged to increase further over the coming years. Headline inflation stood at 3 % and core inflation at 4.6 % year-on-year in March 2019. The monetary policy stand remains accommodative. Inflation is projected to converge to Bank of Uganda's 5 % target over the next one and half years, mainly driven by food prices and fiscal spending. The fiscal deficit widened to 5 % of GDP in FY 2017/18, driven by public investments. Infrastructure investments increased by 1 % of GDP, despite the chronic under-execution of externally-financed projects. Current expenditure exceeded the original budget, although revenue collection increased by 0.4 % of GDP. External financing came mostly from concessional and non-concessional sources for public investment projects. The primary fiscal deficit is projected to remain high, due to large capital spending on infrastructure projects. As a member of the East African Community (EAC), Uganda adopted a set of convergence criteria in preparation for eventual monetary union. Uganda is likely to miss the fiscal deficit convergence criteria of 3 % of GDP by FY 2020/21. Debt metrics have deteriorated and one in five Ugandan shillings collected in revenue will be spent on interest in FY 2019/20. Bank supervision and regulation are generally sound. The debt-to-Gross Domestic Product (GDP) ratio is increasing and is projected to reach 45 % by 2020 from 34.1 % in 2014. At current growth rates, the debt burden is growing faster than government resources; the revenue-to-GDP ratio stands at only 13.4 %. According to the latest Debt Sustainability Analysis for Uganda (December 2017), the country moved from low to moderate risk of debt distress.

The current account deficit widened to 6.1 % of GDP in FY 2017/18, somewhat weaker than desirable. With gross international reserves of USD 3.4 billion (4.2 months of next year's imports) at February 2019, Uganda has a sound buffer against external shocks. The main risks to the outlook are unfavourable weather conditions, domestic and regional political tensions, and further delays in the start of oil production. A more balanced expenditure composition between infrastructure and social development (especially for the youth, women and low skilled workers), would be needed to avoid a decline in human development. Uganda has improved its compliance with the Anti-Money Laundering and Counter-Terrorist Financing standards and embarked to begin accession to the Extractive Industries Transparency Initiative.

Uganda continuously engages with the International Monetary Fund (IMF), which has supported Uganda's economic policy reforms and macro programmes for quite a long while on a sustained basis. The staff report on the 2019 Article IV Consultations corresponds to the first stand-alone consultation after an extended period of programme engagements. **Based on the analysis undertaken, it is concluded that the authorities pursue a stability-oriented macroeconomic policy.**

1.6.3 *Public Financial Management (PFM)*

A new PFM Reform Strategy (PFM-RS) has been approved for the period 2018/19 - 2022/23. The prime implementation framework for PFM reforms has been the Financial Management and Accountability Programme (FINMAP), financed jointly by the Government of Uganda and Development Partners through a basket fund. It will be succeeded by REAP (Resource Enhancement and Accountability Programme, 2019/20 - 2022/23).

Uganda's new PFM-RS is relevant because its formulation has emerged from a thorough stocktaking and situation analysis in the reform areas of Sustainable Resource Mobilisation, Planning and Budgeting, Public Investment Management, Accountability Systems and Compliance in Budget Execution, Local Government PFM for Service Delivery and External Oversight and Governance of PFM Reforms. The design of the strategy was informed by various studies, including the Public Expenditure and Financial Accountability (PEFA) assessment in 2016 and the Mid-term review of the Third Financial Management and Accountability Programme (FINMAP III), the Government's prime implementation framework. In addition, the strategy benefitted from wide stakeholder consultations, internal and external audit reports, as well as other oversight reports, and diagnostic studies undertaken for Government of Uganda by the World Bank and the International Monetary Fund (IMF), amongst others. A critical analysis of historical issues affecting PFM was undertaken and the Strength, Weaknesses, Threat and Opportunities (SWOT) approach was used to distil all current PFM issues, which act as barriers to effective service delivery, and to propose actions for improving the management of public resources.

The PFM-RS is credible because (a) In the recent past, the Government has contributed above 50 % of the funds for implementing the government-led pooled PFM basket fund; (b) a solid coordination and performance review (Public Expenditure Management Committee) mechanism, with an active involvement and representation at the appropriate levels of governmental and non-governmental PFM reform stakeholders, has been established; (c) the design of the PFM reform support programme is undergoing a rigid multi-stage programme appraisal; and, (d) government-led clusters for all five priority reform areas have been recently established.

The last PEFA took place in 2016. The budget process has evolved with macro-economic and fiscal forecasting and strategy, and strong budget preparation processes with a fiscal framework. Aggregate revenue forecasting has improved significantly since the previous PEFA (2012) and the revenue agencies have developed effective processes and procedures, which impact on the execution of the budget. Good information on budget execution is readily available to decision makers. External audit is an area of significant strength. The link between the medium term perspective in expenditure budgeting and sector strategies needs to be improved for a better strategic allocation of resources. The Office of the Auditor General (OAG) adopts auditing standards to govern its work with audit plans and strong staff development programmes. External scrutiny of audit reports by the Public Accounts Committee is not up-to-date, implying that the accountability cycle remains incomplete with a number of Treasury Memoranda unissued. The weakest areas identified in the 2016 PEFA were those related to the stock of arrears (PI-4), transparency of inter-governmental fiscal relations (PI-8), a lack of competitive procurement methods (PI-19) and the legislative scrutiny of audit reports by the legislature (PI-28).

Budget credibility remains a major problem, reflected in the numerous in-year reallocations and supplementary budgets to satisfy competing interests. The management of fiscal risks through the budget, in the form of a provision for contingencies, is yet to be put in place. There has been progress with the Treasury Single Account (TSA) implementation. Local governments (LGs) are being included into the TSA arrangements in a phased manner. Cash flow forecasting is progressing well. Annual financial statements show improvements over previous years. In compliance with the Public Financial Management Act 2015, separate consolidated financial statements are produced for central government and LG, along with a summary statement on selected public corporations. The absence of effective multiannual commitment controls weakens public investment management practices. This contributes to slow budget releases, underfunding of projects with respect to the original investment plans and falling behind the execution schedule. The (aggregate) proportion of funds utilised against originally approved budget increased from 90 % to 99 % in 2017/18. However, this figure does not reveal the significant divergence between quarterly budget execution forecasts and actuals at the more detailed Local Government output level. Procurement performance in fiscal year (FY) 2017/18 was varied: 87 % of entities were rated satisfactory from the audit (up from 76.7 %), 79 % (up from 75.6 %) of contracts were delivered within contract value and only 60 % (down from 72 %) of contracts were subjected to open bidding (by contract value). Major findings of the OAG's 2018 Report refer to the increase in mischarging against budget in Central Government and an increase in unaccounted advances and expenditure on undisclosed arrears. Performance of Uganda's civil service is affected by a large staffing gap (312 000 of 469 000 posts are filled with staffing figures at LG level below 40 %). Progress on domestic revenue mobilisation (DRM) is still low by regional standards. The proportion of international trade taxes to GDP stood at 6.1 % at the end of FY 2017/18 whereas tax revenue as percentage of GDP (including oil) reached 13.82 %. There is a major problem with Value Added Tax (VAT) offsets carried forward, representing 2.7 % of GDP. VAT expenditures average 2.4 % of GDP over the last three years. In FY 2017/18, the proportion of revenue in LG budgets increased from 20 % to 25 % (urban LGs) and 3 % to 6 % (rural LGs). DRM governance has been strengthened by the formation of a cluster, one of its key assignments being the completion and launch of the Medium Term Revenue Strategy. **Based on the analysis, it is concluded that the public finance management reform strategy remains sufficiently relevant and credible.**

1.6.4 *Transparency and oversight of the budget*

The Public Finance Management Act 2015 specifies the budget calendar, the main contents of budget documents, and the roles of the legislature and the executive in the budget process. The implementation of the Act has enhanced the timeliness in the presentation of the budget to Parliament and the publication of audited annual financial statements in line with good practice. Budget documents include forecasts of the main macroeconomic variables, medium-term revenue and expenditure projections, and budget year gross revenue and expenditure plans for central government and 13 of the extra-budgetary units. The documents also set out the Government's main policy objectives and summarise past performance against the objectives. Since 2015, Uganda has increased the availability of budget information by increasing the information provided in the Pre-Budget Statement and the Audit Report. Uganda meets at least the standard of good or advanced practice in 13 of the 36 dimensions of the first three pillars of the International Monetary Fund's Fiscal Transparency Code, while 23 of the 36 dimensions are scored as basic or not met, reflecting issues with the coverage, quality, and reliability of some information. Uganda's score on the 2017 Open Budget Index puts it in second place in sub-

Saharan Africa on budget transparency. A large number of documents is made available to the public through the budget website (e.g. budgets, budget releases, revenue and expenditure for local governments, semi-annual performance reports for central government) and a toll free line provides access to budget information. The National Social Service Delivery Equity Atlas, which enables the public to assess the impact of public investments on social outcomes, is now also available on the Ministry of Finance, Planning and Economic Development's website. However, according to the Open Budget Survey, the Government provides few real opportunities for the public to engage in and influence the budget process. Consultations with national and local government representatives are held at various stages throughout the process. Workshops are also held with civil society organisations, but participation in these workshops is by invitation only and consultations at village and sub-county level rarely take place. **Based on the analysis, it is concluded that the entry point is met and that there is progress towards increasing budgetary transparency.**

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Continued widespread discontent with the 2017 Constitutional Amendment Bill; expected to flare up if the President indeed explores a change to Presidential elections through the Parliament rather than directly through the electorate.	M	Continued political dialogue with the Government, at Art.8 level, with line Ministries and with Parliamentarians.
Degeneration of political confrontations into pockets of violent conflict, with a possible conflagration at national level in the medium term, fuelled by increasing wealth disparities, high-level of corruption (including grand corruption) and dysfunctional institutions, youth unemployment (as a consequence to the high population growth and decrease of social services provision) and the influx of refugees.	M	Follow-up to recommendations of Election Observation Mission, support to JLOS, including the High Court's Anti-Corruption Division, support the separation of powers and the indepen-dence of core institutions and oversight bodies, local authorities and CSOs including human rights defenders; Job creation for the youth; Continued political dialogue with the Government, at Art.8 level, with line Ministries and with Parliamentarians.
Regional political and security concerns, with some risk of exogenous shocks due to increased economic linkages,	M	Continued political dialogue with the Government, at Art.8 level; Participation in macro-economic discussions such as around IMF-PSI (and prospective Programme Co-ordination Instrument).

Risks	Risk level (H/M/L)	Mitigating measures
Poor government effectiveness, low quality of services, increased inequalities (in particular vis-a-vis women).	M	High-level policy dialogue as well as round-table discussions with CSOs around local service delivery in general and the implementation of the inter-governmental fiscal transfer programme in particular.
Low control standards in non-salary expenditure and procurement, fraud, insufficient domestic revenue mobilisation.	M	Strengthening the function of the state, with particular emphasis on sound public financial management (PFM), support to oversight and control functions over the executive, and strengthening investigative and judicial institutions and processes with regard to public mismanagement and breach of authority.
Creation of new Local Governments (LG) could further bring up the cost of service delivery in the country, as well as the cost of achieving equitable and adequate LG transfer allocations.	M	Study on costs to provide arguments against the creation of further LGs and Lower Local Governments.
Assumptions		
1. NDP-3 will be cognisant of and responsive to exponential trends (e.g. population growth, joblessness) that threaten Uganda's prospects for sustainable development and social cohesion. 2. Government will maintain its political commitment to achieve the objectives set out in its Decentralisation Policy in general and the Intergovernmental Fiscal Transfer reform in particular. 3. Government will maintain its political commitment to foster the accountability systems around the budgeting process in general and Gender- and Equity Budgeting in particular.		

3 LESSONS LEARNT AND COMPLEMENTARITY

3.1 Lessons learnt

The experience acquired during the ongoing implementation of the Justice and Accountability (JAR) Sector Reform Performance Contract has proved that the chosen modality has not only allowed a negotiation process towards a results framework triggering ambitious reform processes, but it also has created significant space for high-level policy and technical dialogue as well as engagement of civil society around the agreed disbursement conditions and performance targets.

Although performance based grants (PBGs) in Uganda have been in place for only a few years, there is considerable evidence that the incentives they provide have resulted in genuine improvements in local government (LG) performance. Major areas in which LG performance has improved include core administrative functioning and compliance with basic statutory requirements, as well as the quality of the planning process, compliance with procurement regulations, timely accounting, audit processes and outcomes. Local government transparency and accountability also seem to have improved, enhancing the interface between LGs and citizens, informing dialogue, and improving downward accountability. Horizontal accountability (between local civil servants and elected officials) also appears to have improved as a result of the introduction of performance based grants, which provide elected officials with a good indication of how well (or poorly) LG employees have been performing. Finally, upward accountability has been strengthened through performance based grants, because they provide incentives for LGs to comply with national laws and regulations and report on a timelier basis, as well as opportunities for greater dialogue between the central and local levels. Incentives established by PBGs have also led to improvements in the way LGs handle cross-cutting issues such as gender, social inclusion, poverty targeting and the environment. Such issues have often been embedded in the performance indicators used by PBGs – and have thus contributed to greater sensitivity toward them by LGs. PBGs, by design, can be powerful tools for making capacity-building (CB) more effective and efficient. Performance assessments help in identifying the areas within which LG performance is weak, thus enabling CB activities to be better targeted. The linkages between performance and grants provide real incentives for LG officials to apply their acquired skills and knowledge. There is considerable evidence to the effect that PBGs facilitate greater coordination between and among development partners (DPs) – the safeguards associated with PBGs allow DPs to more easily enter into basket-funding arrangements, which may evolve over time into sector budget support for decentralisation. There are indications that the use of performance based grants usually leads to positive infrastructure and service-delivery outputs – in terms of allocative efficiencies, better implementation, cost efficiency and sustainability. Underlying these outcomes are two key factors – the extent to which a PBG encourages Central Government and DPs to provide discretionary grants to LGs (fostering local-level prioritisation and greater allocative efficiencies) and the incentives provided for improved planning, budgeting & costing, design, contracting, project implementation and supervision, and operations and maintenance.

If countries have labour force surveys (LFSs) in place, they are the primary source for labour market statistics and key labour market indicators, such as the employment-to population ratios, unemployment rates, employment by status, sector and occupation, etc. Labour Force Surveys are also the key source for measuring skill mismatches in the labour market, the school-to-work transition of youth and are vital to guide human capital development at sub-national levels. Uganda’s labour force survey is underfunded and the sampling, questionnaire and indicators collected are not representative at sub-national level. They also do not allow the collection of gender disaggregated information. Within the context of fiscal decentralization in Uganda, the establishment of a regular labour force survey that can produce relevant indicators at subnational level with statistical precision will help to (a) define the most relevant employment and social development services that LG need to deliver to improve human capital development, (b) guide decent and productive employment promotion and support local economic development and increases in the living standards of people, (c) provide the information LGs need to set relevant skills development and employment targets and (d) reveal regional and local imbalances related to Uganda’s "state of human capital development and employment" which will help to adjust grant transfer allocation to Districts and consequently reduce spatial imbalances progressively.

3.2 Complementarity, synergy and donor coordination

Strong interest has been expressed by the Swedish International Development Cooperation Agency (SIDA) to support the present action’s emphasis on the synergies between employment creation and strengthening Local Governments (LGs) to improve service delivery. Discussions about the modality of a potential EU-SIDA cooperation have not yet been concluded. In any case, the EU is encouraging Member States to join the policy dialogue, capacity building actions and performance monitoring framework around EU budget support programmes, in the spirit of joint actions.

The Government of Uganda will be encouraged to request the mobilisation of the SOCIEUX+ technical assistance facility (EU Expertise on Social Protection, Labour and Employment) to support the design of a national employment and job creation strategy and assist the implementation of the labour force survey.

Among the relevant complementary actions are: (i) the World Bank (WB) funded *"Uganda Intergovernmental Fiscal Transfers Programme"* (Programme for Results), which aims to improve the adequacy and equity of fiscal transfers and fiscal management of resources by Local Governments for health and education services; and, (ii)the WB-funded *"Uganda Support to Municipal Infrastructure Development Programme"*, aiming to enhance institutional capacity of selected municipalities to address urban service delivery gaps. This action complements the above programmes by extending the thematic focus of discretionary grant transfer to other areas of major concern (employment, gender and equity, disaster preparedness, social cohesion in vulnerable districts). It also supplements the Government's regionally defined equalisation grant transfers allocated to the Peace, Recovery and Development- (PRDP) and Luwero-Rwenzori Development (LRDP) plans.

The proposed action also complements the EU Trust Fund funded projects: (i) *"Response to increased demand on Government Service and creation of economic opportunities in Uganda"* aiming to strengthen local authorities' coordination and development and contingency planning as well as local-led service delivery to refugees and host populations; (ii)"*Support Programme for Refugee Settlements in the Northern Uganda*", notably the grant financing of the Koboko municipality for better Public Financial Management and services.

Finally, this action will complement the 11th EDF funded Development Initiative for Northern Uganda Programme, which contributes to strengthening capacity, gender-responsive good governance and the rule of law at the level of local government authorities and empowering communities to participate in improving local service delivery. The action seeks to establish a mechanism of discretionary funding to local governments to empower them to better protect the population in their jurisdictions against social-, environmental- and epidemiological vulnerability and risks. It is expected that such mechanism could improve the capacity of local governments to mitigate disaster risks, enable refugee hosting communities to improve the adequacy of local service delivery and strengthen the local government's role for information and targeting systems related to social protection. Discretionary funding is therefore very much aligned to the EU's NEXUS commitments. A close coordination with the Directorate-General for European Civil Protection and Humanitarian Aid Operations (ECHO), at all stages of the action, will help to ensure that fiscal decentralisation reform in Uganda will be increasingly responsive to the Humanitarian-Development Nexus in general and to Uganda's Comprehensive Refugee Response Framework (CRRF) in particular.

Other complementary measures include the Global Action on *"Improving synergies between social protection and PFM"* and the *"Governance Accountability Participation and Performance"* funded by the UK Department for International Development and the United States Agency for International Development. The "Justice and Accountability Reform" (JAR) action has consolidated a mutual understanding between Government and the EU on key activities conducive for a successful Sector Reform Performance Contract. The two budget support actions include policy dialogue on public financial management. The proposed action can capitalise on the JAR by harnessing the strengthened role of the Accountability Secretariat and building on JAR activities related to policy-based and gender-sensitive planning.

4 DESCRIPTION OF THE ACTION

4.1 Overall objective, specific objective(s), expected outputs and indicative activities

The overall objective (OO) of the action is to support progress towards SDGs through equitable and inclusive development. Its specific objective (SO) is to improve equitable service delivery at sub-national level, thereby furthering social development and social cohesion.

The following 4 Induced Outputs (IOs) have been identified and found to be conducive and essential for achieving the SO.

IO1: Restored adequacy in financing of service delivery and capacity of Local Governments (LGs):

Key activities will comprise the improvement of the guidelines for the District Discretionary Equalisation Grant (DDEG) planning and management, the development of guidelines for planning, budgeting, management and reporting (learning from implementation experiences and ensuring consistence with the Chart of Accounts and Programme Based Budgeting System), support to LGs in the use of the guidelines and the training of the DDEG National Resource Pool to supervise use of the guidelines across the country.

IO2: Ensured equity in allocation of funds for service delivery:

Key activities will include Gender and Equity Budgeting (GEB) capacity development, the development of metadata for high-impact GEB performance indicators, the establishment of a link between GEB and the Government Annual Performance Reviews, the production and dissemination of GEB-related information, education and communication materials. Other activities will support the definition and costing of LG employment governance. It is also foreseen to assist the Government in the identification of a mechanism for financing the disaster preparedness of local governments and to ensure that fiscal decentralisation reform in Uganda will be increasingly responsive to the Humanitarian-Development Nexus, especially in the context of Uganda's Comprehensive Refugee Response Framework.

IO3: Improved efficiency of LGs and Lower Local Governments (LLGs) in the delivery of services:

Key activities will include capacity building of LGs at all stages of their PFM but with a particular focus on policy-based planning, budgeting and performance management and the analysis of the annual LG performance assessments to identify and cost capacity building priorities.

IO4: Enhanced accountability for local service delivery:

Key activities will include assistance to the Government of Uganda in the implementation, monitoring and evaluation of the 2018 Uganda Budget Transparency and Accountability Strategy and, in particular, its linkages to the transparency and accountability of LG service delivery.

Direct outputs (DOs) will include (DO1) Additional fiscal space, discretion and predictability of funds for local service deliver created, (DO2) Improved policy performance assessment and monitoring of Uganda's Inter-governmental Fiscal Transfer Reform, (DO3) Improved policy dialogue and coordination on fiscal decentralisation in general and equitable local service delivery in particular and (DO4) strengthened capacities at national-, local- and lower local government level to leverage the service delivery impact of fiscal decentralisation.

It is expected that the action will result in a more effective dialogue on inclusive and equitable sub-national development, service delivery, fiscal decentralisation, Gender Equity Budgeting, local employment governance and local government performance, engaging therein different levels of Government, Development Partners and Civil Society. The dialogue space available through the Article 8 format, the National Partnership Forum, the Steering and Technical

Committees for the Intergovernmental Fiscal Transfer Reform and sector working groups will be harnessed to that end. A representative cross-section of civil society will be consulted before the disbursement of each variable tranche. This will include a regular roundtable with Civil Society Organisations (CSOs) to receive feedback on the implementation of gender and equity budgeting and its outcomes. The action will support the Government in following up on the UN Committee on the Rights of Persons with Disabilities' recommendation to establish systematically and on regular basis high-level consultations with organisations representing persons with disabilities.

4.2 Intervention Logic

The proposed action recognises that fiscal decentralisation reforms, coupled with strengthening of Public Financial Management (PFM) capacities of local governments, is a promising approach for enhancing local service delivery. Supporting Uganda's Inter-governmental Fiscal Transfer Reform allows structuring the action according to the specific Fiscal Decentralisation objectives which are not adequately emphasised in other policy frameworks (e.g. Uganda's PFM Reform Strategy and the Accountability Sector Strategic Investment Plan). The chosen budget support modality (Sector Reform Performance Contract), specific objective and induced outputs of the action are not only appropriate to strengthen policy dialogue and coordination around fiscal decentralization and service delivery in Uganda, but also coincides with a change in Uganda's political economy where the role of the Ministry of Local Government has been repositioned through defining "Local Governments" in 2019 as a sector by its own.

The action's focus on a particular (District Discretionary Equalisation Grant, DDEG) grant transfer mechanism is based on the consideration that only discretionary funding to local governments creates incentives and space for improved bottom-up planning and budgeting capacity development and performance. It is further assumed that more evidence (performance assessment) on DDEG outcomes will create more thrust in Government to scale up discretionary grant transfers to Local Governments (LGs). However, to translate discretionary funding into outcomes requires appropriate staffing levels. For this reason, the closing of the LG staffing gap was identified as one of the key performance areas of the action. The action can build on policy and legislative frameworks that guide planning, budgeting and accountability for cross-cutting themes such as Gender Equity Budgeting, Employment and Disaster Risk Financing. The additionality of the action for these themes is given by linking them to reform objectives (adequate and equitable allocations) for Uganda's inter-governmental fiscal transfers.

The value of and need for increased funding to LGs can be quantified if compared with LG's service delivery functions (expenditure assignments) and the cost implications of attaining minimum service delivery targets. The action can build here on substantial prior work of sector working groups and the National Planning Authority but its additionality will consist in operationalising these standards through official (Cabinet) approval and their progressive integration in the Medium Term Expenditure Framework. Sector-wide and national consultations around local service delivery standards will also be conducive to further Uganda's efforts to integrate both SDGs and a Human-Rights Based Approach (HRBA) in sub-national development planning. The action seeks to strengthen accountability for local service delivery from two angles. The availability of Public Expenditure Tracking Surveys (PETs) for the sectors concerned by inter-governmental fiscal transfers will allow validating (or modifying) for each sector assumptions about the adequacy, equity and efficiency of the transfers. PETS will also allow identifying weaknesses to account for those transfers at both local and sector (line ministry) level. PETs will help to reduce one major gap for accountable service delivery in Uganda, i.e. the fact that resources received by service delivery units remain largely unknown. For the final recipients of service delivery, it is currently largely impossible to find in the public domain lower local government level plans, budgets and budget performance reports. The degree to which this information will be made available in the public domain will impact substantially the ability of citizens and civil society to advocate for adequate, equitable and efficient local service delivery.

The combination of the Budget Support and (Government-led) basket fund modalities is justified since this arrangement allows to link fiscal decentralisation policy support with the (basket-fund driven) PFM reforms for Programme-Based Budgeting and PFM capacity development for LGs. The PFM basket fund allows the contributing parties to participate in the design and steering of Uganda’s PFM reforms (in 2019 the EU was entrusted to procure the evaluation of cost-effectiveness of PFM capacity building). The proposal to allocate (beyond the basket fund contribution) another 10 % of the action's Budget for Complementary Measures is appropriate due to the fact that, on the one hand, the Governmenta of Uganda is partnering successfully with substantial external expertise on fiscal decentralization. Furthermore, there is very limited public sector experience in Uganda to (a) use PFM for employment creation and (b) to link long-term national planning with fiscal decentralisation reform processes. The momentum for the action is rather favourable given the fact that it coincides with the beginning of a new cycle of National Development Planning (NDP- 3: 2020/21 – 2024/25) and, hence, the opportunity to link medium-term planning and budgeting at SDG-/national- and local level. The design of the action has indeed been substantially informed by recent (2018/19) diagnostic studies assessing NDP-1 and NDP-2 achievements in the area of gender, employment, inclusive growth and NDP governance among others.

4.3 Mainstreaming

This action will strengthen capacities as well as monitoring- and accountability systems linked to Gender Equity Budgeting (GEB). This will result in the mainstreaming of a focus on inclusiveness, regional disparity, gender, age and disability in the government’s planning, budgeting, monitoring and performance assessment processes. It is envisaged to use complementary funding (see chapter 5.4.2) to the government-led Public Finance Management (PFM) basket fund to strengthen the functions of the Equal Opportunities Commission and Uganda Bureau of Statistics as well as the GEB capacity of the planning and budgeting functions in Local Governments (LGs) and Lower Local Governments. Improved outcomes are expected at the level of Local Government votes, with an increasing number of costed and high-impact outputs and outcomes reflecting gender and equity dimensions in their respective medium-term and annual work plans and budgets. This could potentially unlock a sharp increase of GEB-linked budget allocations. It is also expected that existing surveys (e.g. Uganda Bureau of Statistics' National Service Delivery Survey with a GEB-specific module) and Uganda's evolving Programme-based Budgeting System will increasingly provide data disaggregated by affected GEB category, e.g. persons with disabilities, women, children, youth and older persons). The action will contribute to the Government's efforts to identify high-impact GEB outputs and outcomes within and across high-impact sectors (e.g. Agriculture, Justice Law and Order, Health, Education, Social development) in a sequenced and plausible manner. It is expected that an enhanced consideration of emerging local vulnerabilities (climate change related natural disasters, migration, malnutrition) in discretionary and non-discretionary formulae for grant transfers to local governments will be conducive to equitable, inclusive and resilient development and service delivery.

4. 4 Contribution to SDGs

This intervention is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the progressive achievement of SDG 16 (*Promote just, peaceful and inclusive societies*) and in particular its targets 16.6 (Develop effective, accountable and transparent institutions at all levels) and 16.7 (*Ensure responsive, inclusive, participatory and representative decision-making at all levels*), both of which are closely related to the promotion of discretionary expenditure at sub-national government level. The action’s emphasis on gender equity budgeting is conducive to "*gender equality and empowering all women and girls* (SDG 5)’ and to "*Reduce inequality within and among countries* (SGG 10) ". Because of the action’s emphasis on induced service delivery outputs, there are also interlinkages to SDG targets 4.5 ("*by*

2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations"), 4A ("*Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, nonviolent, inclusive and effective learning environments for all*") and 8.5 ("*By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value*").

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3 Implementation of the budget support component

5.3.1 *Rationale for the amounts allocated to budget support*

The amount allocated for the budget support component is EUR 32 000 000, and for complementary support is EUR 9 300 000. This amount is based on an average annual disbursement of at least EUR 10 000 000, which corresponds to approx. 20 % of the projected average annual Discretionary Development Equalisation Grant (DDEG) envisaged by the Intergovernmental Fiscal Transfer Reform Programme (IGFT-RP) and approximately 50 % of the not further described DDEG projected expenditure for Fiscal Years 2020/21- 2022/23.

5.3.2 *Criteria for disbursement of budget support*

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the Intergovernmental Fiscal Transfer Reform Programme (IGFT-RP)[5] and continued credibility and relevance thereof;
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform;
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information, evidenced in particular by annual-, bi-annual and quarterly budget performance information at national-, sector- and local government level and an increased representation of Civil Society Organisations (CSOs) in Sector Working Groups during the budgeting process.

The specific conditions as well as the tranches to which they apply are as follows:

---

5 The name Programme is misleading since the IGFT-RP is designed as a medium-term strategy. The attribute ″Programme″ was chosen to match semantically with the World Banks Sector Budget Support modality, i.e. Programme-for-Results.

b) The performance indicators for disbursement that may be used for variable tranches are the following:

- Proportion of LGs that have substantially filled Head of Department positions that are key for Service Delivery;
- Integration of minimum service delivery targets for selected sectors in the Medium-Term Expenditure Framework (MTEF) for Local- and Lower Local Governments;
- Medium-term strategic framework operationalised for Gender Equity Budgeting, composed of high-impact outcomes for selected sectors;
- Medium-term expenditure framework (MTEF) established for sub-national employment governance;
- Enhanced consideration of emerging local vulnerabilities (natural disasters, migration, malnutrition) in the formulae for operational and development grant transfers;
- Performance Assessment (PA) system for Lower Local Governments (LLGs); and
- Public Expenditure Tracking Surveys (PETS) for Local Government Service Delivery Functions.

The chosen performance indicators and targets to be used for disbursements will apply for the duration of the action. However, in duly justified circumstances, the National Authorising Officer may submit a request to the Commission for the targets and indicators to be changed. Note that any change to the targets should be agreed ex-ante at the latest by the end of the first quarter of the assessed year. The agreed changes to the targets and indicators shall be agreed in advance and may be authorised in writing (either through a formal amendment to the financing agreement or an exchange of letters).

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 *Budget support details*

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Ugandan Shilling will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

- Transfer of up to EUR 32 000 000 during the Fiscal Years 2020/21, 2021/22, and 2022/23.
- Policy dialogue with the Government of Uganda, emphasising allocations against the Medium Term Expenditure Framework of the Intergovernmental Fiscal Transfer Reform Program, size and equitable allocation of the district discretionary equalisation grant (DDEG), the filling of staffing gaps for local service delivery, institutional and service delivery performance of local- and lower governments, local government performance systems and accountability systems for local service delivery.
- Regular high-level policy dialogue between the EU and the governmental agencies involved in the Action to address key issues of concern.
- Participation in and support to the Intergovernmental Fiscal Transfer Reform (IGFTR) Oversight and Steering Committees to strengthen policy dialogue around the implementation of the IGFTR.
- Coordination through the IGFTR Technical Committee of the preparation of the IGFT-RP mid-term and final evaluations, capacity building, expenditure reviews and other related assessments.
- Organisation of and participation in IGFT-RP performance reviews, including their follow-up actions.

Monitoring of:

- Eligibility criteria (General Conditions) for the Sector Reform Performance Contract;
- Fulfillment of the Specific Disbursement Conditions;
- Progress against the performance targets for the Variable Tranches;
- Macroeconomic developments based on the International Monetary Fund's and other assessments;
- Progress in the implementation of the Public Financial Management Reform strategy;
- Publication of the budget proposal or the enacted budget;
- Disclosure of budget execution reports of Local Governments and Lower Local Governments;
- Progress against the IGFT-RP targets, based on quarterly and annual performance reports;
- Progress against local service delivery targets of the Social Development-, Health-, Education-, Water & Environment-, Agriculture-, Works- and Transport- and Justice Law and Order Sectors);
- Progress towards capacity building of sub-national Governments in PFM;
- Participation of civil society in the IGFT-RP related policy dialogue and technical committee.

5.4 Implementation modalities for complementary support to budget support

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures[6].

5.4.1 *Grants: (direct management)*

(a) Purpose of the grant(s)
The grant will complement the induced inputs 1 (Restored adequacy in financing of service delivery),
2 (Ensured equity in allocation of funds for service delivery) and 3 (Improved efficiency of LGs and LLGs in the delivery of services), which are further specified in section 4.1. Its main objective will be to 'strengthen the Government of Uganda's management and coordination of the Discretionary Development Equalisation Grant (DDEG) for improved local investment".

(b) Type of applicants targeted
Legal entities

(c) Justification of a direct grant
Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to legal entities, selected using the following criteria:

- Extensive experience and track record with supporting Governments in the East Africa region to design and implement inter-governmental fiscal transfer reforms for improved service delivery that are grounded in the context of peer experience.

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because the proposed action has specific characteristics that require a particular type of body on account of its technical competence (20F/V10) according to Article 195 (f) of the Financial Regulations (FR).

---

6 www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

5.4.2 *Grants: (direct management)*

(a) Purpose of the grant(s)

The grant will complement and reinforce results area 4, which is further specified in chapter 4.1. Its main objective will be to enhance the impact of Public Finance Management on sub-national employment- and social development governance.

(b) Type of applicants targeted

International organisations

(c) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to an international organisation, selected using the following criteria:

Extensive experience and track record in (i) the development of policies and programmes promoting decent work for all women and men through a tripartite membership structure; (ii) the development of employment- and labour market solutions that are based on consensus and are best suited to serve all affected constituents in a given country; (iii) assisting countries in the formulation and implementation of pro-employment policies, strategies programmes and budgets; (iv) the development and implementation of good practices and tools that link broader employment, economic- and social policies to targeted interventions aimed at overcoming the specific constraints faced by disadvantaged people (youth, women, people living with disabilities, etc.) in entering and remaining in the labour market; (v) advocating for employment intensive investment approaches in job-rich sectors and a track record in developing technical and managerial tools for the effective adaption and rollout of this approach; (vi) assisting countries in Employment Diagnostic Analysis (EDA) as the analytical basis for the development of employment promotion policies/programmes; (vii) assisting countries in social dialogue; and assisting countries in designing labour force surveys (LFSs) and Labour Market Information Analysis (LMIA) system.

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because the proposed action has specific characteristics that require a particular type of body on account of its technical competence according to Article 195 (f) of the Financial Regulations (FR).

5.4.3 *Grants: (direct management)*

(a) Purpose of the grant(s)

The grant will complement and reinforce the Induced Output N° 1 of the Action (Restored adequacy in financing of service delivery), which is further specified in section 4.1. This will be achieved through research and dissemination of findings on sub-national public spending and development trends towards Vision 2040 targets.

(b) Type of applicants targeted
Legal entities, public bodies

(c) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to a legal entity or public body, selected using the following criteria:
Extensive experience and track record in: (i) Open-source technology tools for long-term modelling, scenario analysis and forecasting of national- and sub-national development trends;

(ii) Long-term modelling of development trends in a wide variety of countries, policy contexts and issue areas (including population, economy, agriculture, education, energy, socio-political, international political, environment, technology, governance, infrastructure, and health).

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because the proposed action has specific characteristics that require a particular type of body on account of its technical competence (20F/V10) according to Article 195 (f) of the Financial Regulations (FR).

5.4.4 *Indirect management with the partner country*

A part of this action with the objective of improving equitable service delivery at sub-national level may be implemented in indirect management with the Ministry of Finance, Planning and Economic Development (MoFPED according to the following modalities:

c) Implementation through a pool fund. A part of this action may be implemented in indirect management with MoFPED. The latter was subjected in 2016 to a Pillar Assessment (CRIS Audit N° 2016/96807) which did not find any critical deficiencies or weaknesses. The Pillar Assessment is still valid since the same entity of Government that was subjected to the 2016 assessment (MoFPED) will be managing the pool fund for the new Pubic Financial Management Reform Programme, i.e. the Resource Enhancement and Accountability Programme (REAP; FY 2019/20 – FY 2022/23). However, it is foreseen to conduct with 11th EDF (Technical Support Programme) funding a repeat pillar assessment before the end of 2019. At a later stage, a continuation of their contribution to the pool fund is envisaged by KFW Development Bank and the Danish International Development Agency (DANIDA). The pool fund implementation entails - corresponding to the 2nd[7] and 5th[8] objective of REAP - support to Local Government in (a) the development of costed medium-term strategies aligned to the National Development Plan and the SDGs, (b) planning and budget responsiveness to gender equity and (c) compliance with accountability requirements (financial management and reporting, procurement, monitoring and supervision, performance reporting). This implementation is justified because MoFPED has established an effective Project Management Unit which has a positive track record in Uganda in coordinating and delivering PFM reforms through joint co-financing by development partners and Government of its national PFM reform programme. Channelling financial support through a multi-donor pooled fund, managed by the PMU, has been the funding mechanism by the EU and other contributing development partners to help finance previous phases of this basket fund. It has enabled a high degree of harmonisation, alignment, and ownership, making Government's reform efforts more effective and sustainable, aided by the predictability of resources coming from the pooled funding arrangement.

5.4.5 *Changes from indirect to direct management mode due to exceptional circumstances*

The preferred implementation modality under indirect management 'Pooled basket fund for PFM Reform' can be replaced by direct management (budget support), contributing to achieving the specific objective of the action.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provision:

---

[7] To Enhance Policy-Based Budgeting & Planning for Allocative Efficiency.

[8] To improved transparency and accountability of Local Government PFM systems.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (in EUR)	Indicative third party contribution (in EUR)
5.3. Budget support: Fixed- & Variable Performance Tranches	**32 000 000**	
5.4.1 Grants (direct management)	**2 000 000**	
5.4.2 Grants (direct management)	**1 000 000**	
5.4.3 Grants (direct management)	**300 000**	
5.4.4 Indirect management with the Republic of Uganda	**6 000 000**	**30 000 000**
5.9 Evaluation, 5.10 Audit	Will be covered by another decision	
5.10 Communication and visibility		
Total	**41 300 000**	**30 000 000**

5.7 Organisational set-up and responsibilities

The Ministry of Finance, Planning and Economic Development (MoFPED), the EDF National Authorising Officer, holds the overall responsibility for the preparation and transmission of disbursement dossiers, the fulfilment of the general eligibility conditions, the fulfilment of the specific conditions for the release of the variable tranches, the achievement of the performance targets and the disclosure of financial and non-financial progress reporting against the Intergovernmental Fiscal Transfers Reform Programme (IGFT-RP). They will further be responsible for the procurement identified in the budget above under indirect management with the Republic of Uganda. MoFPED, the Office of the Prime Minister and the Ministry of Local Government hold overall responsibility for the sector policy, sector coordination and implementation of the IGFT-RP. The latter has well-established steering and technical committees and can also capitalise on the concerned sector working groups (e.g. Health, Education, Social Development) which are expected to facilitate policy dialogue and performance reviews for the Action in their respective domains and across their inter-linkages for integrated service delivery (e.g. vis-à-vis the Comprehensive Refugee Response Framework).

5.8 Performance and Results monitoring and reporting

For the establishment or consolidation of baseline values and for the monitoring or assessment of progress achievements against the performance targets of the Action, external assistance can be made available by using funding from another decision for evaluation and audit. Baseline values, targets and end-line values in the log frame that may require specific surveys/studies to be conducted will be those related to the assessment of the compliance of the Labour Force Survey with the International Conference of Labour Statisticians standards (ICLS), a systems audit of the performance management system for lower local governments as well as external assessments of service delivery standards (including their medium-term expenditure requirements).

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the partner's strategy, policy or reform action plan list. The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 **Evaluation**

Having regard to the importance of the action, a mid-term and final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out for problem solving and learning purposes, in particular with respect to progress made towards more adequacy, equity and efficiency in the financing of sub-national social service delivery.

The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that Uganda's accountability system for spending and performance against social delivery objectives is still evolving and inadequate at sub-national levels.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 2 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services shall be covered by another measure constituting a financing decision.

5.10 **Audit**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services contracts shall be covered by another measure constituting a financing decision.

5.11 **Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities.

Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

It is foreseen that a contract for communication and visibility may be financed under Technical Support Programmes.

APPENDIX – INTERVENTION LOGIC TABLE (FOR BUDGET SUPPORT)[9]]

	Results chain	Indicators	Baseline (06/2019)	Targets (Fiscal Year)	Sources of data
Overall objective	To support progress towards SDGs through equitable and inclusive development	Degree of alignment between Local Government Plans and the SDGs	The Government of Uganda has formulated an SDG Coordination Framework and launched a SDGs Roadmap in 2018	FY 2020/21: SDGs integrated in MTEF of Local Governments FY 2021/22: Progress report against implementation of SDGs by Local- and Lower Local Governments	External assessment (study)
Specific objective	To improve equitable service delivery at sub-national level, thereby furthering social development and social cohesion	Institutional and service delivery performance score of Local Governments: <u>Districts</u>	Average Score: 56 % (FY 2017/18)	FY 2019/20: Increase vs 2018/19 FY 2020/21: Increase vs 2019/20 FY 2021/22: Increase vs 2020/21	Local Government Annual Performance (LGAP) Asssessment
		Institutional and service delivery performance score of Local Governments: <u>Municipal Local Governments</u>	Average Score: 53 % (FY 2017/18)	FY 2019/20: Increase vs 2018/19 FY 2020/21: Increase vs 2019/20 FY 2021/22: Increase vs 2020/21	Local Government Annual Performance (LGAP) Asssessment

[9] Mark indicators aligned with the relevant programming document with '*' and indicators aligned to the EU Results Framework with '**'. Indicators used within variable tranches must be flagged **in bold**.

	Results chain	Indicators	Baseline (06/2019)	Targets (Fiscal Year)	Sources of data
		Annual budget allocations of inter-governmental grants (non-discretionary) against Medium Term Expenditure Framework (MTEF)	FY 2019/20: (in Bn Ugsh) Total: 3429.5; Conditional: 2609.8; Wage: 1755.8 Non Wage: 544.0 Development: 310.1	FY 2019/20: Update of MTEF of Inter-Governmental Fiscal Transfer Reform Programme (IGFT-RP); FY 2020/21: No shortfalls against MTEF FY 2021/22: No shortfalls against MTEF	Approved Estimate of Revenue and Expenditure – Volume 2: Local Government Votes
		Annual District Discretionary Equalisation Grant (DDEG) allocations[10]	FY 2019/20: (in Bn Ugsh) Non PRDP District DDEG: 29 Non USMID Municipalities and Town Councils: 13.5 Total: 42.5		Approved Estimate of Revenue and Expenditure – Volume 2: Local Government Votes
Induced Output (IO 1)	Restored adequacy in financing of service deli-very and capacity of Local Governments (LGs)	Proportion of Local Governments (LGs) that have substantively filled Heads of Department positions that are key for service delivery	2 % as per the Local Government Performance Assessment conducted in FY 2018/19	10 % (2020/21) ***PI*** 20 % (2021/22) ***PI***	Local Government Performance Assessment Report (Office of the Prime Minister)

[10] To Local Governments NOT participating in Peace, Recovery and Development (PRDP)- and Luwero-Rwenzori Development (LRDP)- plans and Uganda Support to Municipal Infrastructure Development Program (USMID).

	Results chain	Indicators	Baseline (06/2019)	Targets (Fiscal Year)	Sources of data
		Status of service delivery standards for Local Government (LGs) and Lower Local Governments (LLGs)	The Local Government Act obliges line ministries to establish minimum national standards for service delivery in the sectors under their jurisdiction; Approved Minimum Service Delivery Standards for Local- (LG) and Lower Local (LLG)	FY 2020/21: Local- and Lower Local Government Service Delivery (SD) standards[11] approved and accessible in the public domain (www) ***PI*** FY 2021/22:Estimates of minimum costs for delivering LG- and LLG service standards[2] approved and accessible in the public domain ***PI***	Approval Minutes of Sector Working Groups/Sector Secretariats Approval Minutes of Sector Working Groups/Sector Secretariats and Local Government Finance
Induced Output (IO 2)	Ensured equity in allocation of funds for service delivery	Status of Medium-Term Strategic Framework for Gender Equity Budgeting (GEB)	Equal Opportunities Commission (EOC) Report on Compliance with Gender and Equity Requirements for FY 2018/19 does not include a Medium-Term Strategic Framework for Gender Equity Budgeting (GEB)	FY 2020/21: Medium-Term M&E and Expenditure Framework established for GEB, composed of high-impact programmes/outcomes identified for selected Votes ***PI*** FY 2021/22: Annual Progress Re-port against GEB Medium Term M&E and Expenditure Framework ***PI***	Equal Opportunities Commission (EOC) Annual Reports on Compliance with Gender and Equity Requirements

[11] For Health, Education, Social Development, Production & Marketing, Water & Environment, Works and Transport, Public Sector Management

	Results chain	Indicators	Baseline (06/2019)	Targets (Fiscal Year)	Sources of data
		Establishment of pre-conditions for Local Government (LG) Employment Governance	Labour Force Survey (LFS) statistics, disaggregated by Local Governments have not been produced to date in Uganda; The National Employment Policy for Uganda (April 2011)	FY 2020/21: Labour Force Survey (LFS) statistics disaggregated by Local Governments accessible in public domain (www) ***PI*** FY 2021/22: National Employment Strategy, including the clarification of functions, responsibilities, M&E framework and medium-term funding requirements for sub-national employment governance ***PI***	FY 2020/21: www domain of Uganda Bureau of Statistics (UBOS) FY 2021/22: www domain of Government of Uganda (host yet to be defined)

	Results chain	Indicators	Baseline (06/2019)	Targets (Fiscal Year)	Sources of data
		Status of discretionary funding to local governments for surveillance and addressing of social-, environmental- and epidemiological vulnerability and risks	Discretionary Development Equalisation Grant (DDEG) Grant Budget and Implementation Guidelines for Fiscal Year 2016/17 are online available; No DDEG window exists for surveillance and addressing of social-, environmental- and epidemiological vulnerability and risks	FY 2020/21: A DDEG window has been established for increasing local government capacity for surveillance and addressing of social-, environmental- and epidemiological vulnerability and risks ***PI*** FY 2021/22: Semi-annual budget performance report for the new DDEG window for the 1st and 2nd quarter of Fiscal Year 2021/22 ***PI***	Approved Estimate of Revenue and Expenditure – Volume 2: Local Government Votes; Discretionary Development Equalisation Grant (DDED) Grant Budget and Implementation Guidelines Semi-annual budget performance report for the new DDEG window accessible in the public domain (www)

	Results chain	Indicators	Baseline (06/2019)	Targets (Fiscal Year)	Sources of data
Induced Output (IO 3)	Improved efficiency of Local Governments (LGs) and Lower Local Governments (LLGs) in the delivery of services	Availability of Performance Information for the Lower Local Government (LLG) level	An Annual Performance Assessment for the Lower Local Government (LLG) level doesn’t exist	FY 2020/21: Reporting of Lower Local Government outputs accessible online ***PI*** FY 2021/22: Lower Local Government (LLG) Performance Assessment completed ***PI***	FY 2020/21: www domain of Ministry of Finance, Planning and Economic Development (MoFPED) and/or Ministry of Local Government (MoLG) FY 2021/22: www domain of Office of the Prime Minister (OPM) and/or Ministry of Local Government (MoLG)

	Results chain	Indicators	Baseline (06/2019)	Targets (Fiscal Year)	Sources of data
Induced Output (IO 4)	Enhanced accountability for local service delivery	Number of Public Expenditure Tracking Surveys (PETs) completed for inter-governmental fiscal transfers	Public Expenditure Tracking Surveys (PETs) were conducted in Uganda for the Agriculture- (2012), Water- (2009) and Education (2002) Sectors. No PETs have been conducted for inter-governmental fiscal transfers in Uganda.	FY 2020/21: Public Expenditure Tracking Surveys (PETs) completed for at least 4of the following Sectors/Grants: - Health - Education (Primary) - Social Development - Production and marketing - Water & Environment - Works and Transport - Public Sector Management - District Discretionary Equalisation Grant (DDEG) ***PI*** FY 2021/22: PETs completed for all of the above Sectors/Grants ***PI***	Approval Minutes of Inter-Governmental Fiscal Transfer Technical Committee and Sector Working Groups

	Results chain	Indicators	Baseline (06/2019)	Targets (Fiscal Year)	Sources of data
Direct Outputs (DOs)	DO1: Additional fiscal space created by the transfer of funds and increased predictability of funds	1.1 Disbursement level of the Budget Support	At the moment Fiscal Decentralisation and Service Delivery and the Intergovernmental Fiscal Transfer Program are not supported by a budget support Action	10 Euro Million (FY 2020/21) 12 Euro Million (FY 2021/22) 10 Euro Million (FY 2022/23)	Acknowledgement of budget support receipts by Ministry of Finance, Planning and Economic Development (MoFPED); Confirmation of the applied exchange rate by Bank of Uganda (BoU)
	DO2: Improved policy performance assessment and monitoring of the intergovernmental fiscal transfer re-form program	2.1 Status of progress reporting against the implementation of the intergovernmental fiscal transfer re-form program	An approved Annual Progress Report approved against the implementation of the inter-governmental fiscal transfer reform program in FY 2018/19 is not yet available	Annual Progress Report approved for FY 2019/20 (FY 2020/21) Annual Progress Report approved for FY 2020/21 (FY 2021/22) Annual Progress Report approved for FY 2021/22 (FY 2022/23)	Approval minutes of Fiscal Decentralisation Technical Committee (composed of representatives of the Ministries of Finance and Local Government, sector ministries as well as the Local Government Finance Commission and the Office of the Prime Minister

	DO3: Improved policy dialogue and coordination on fiscal decentralisation and service delivery	3.1 Frequency of policy dialogue	Quarterly meetings of the Intergovernmental Fiscal Transfer Reform (IGFTR) Committees: - Oversight Committee - Steering Committee - Technical Committee	Establishment on policy dialogue roadmap for fiscal decentralisation and service delivery (FY 2019/20) At least 2 high-level policy dialogue events on fiscal decentralisation and service delivery (FY 2020/21) At least 2 high-level policy dialogue events on fiscal decentralisation and service delivery (FY 2021/22)	Policy Dialogue Minutes; Yearly policy dialogue plans for 'Fiscal Decentralisation and Service Delivery' Sector Reform Performance Contract (SRPC)
	DO4: Strengthened capacities conducive to the implementation of the inter-governmental fiscal transfer reform	4.1 Existence of employment sensitive Public Financial Management tools	No Local Government in Uganda has at the moment a strategy for employment-intensive investments.	5 Districts have a costed medium term strategy for employment-intensive investments (FY 2021/22)	Updated 5-year District Development Plans for selected Districts (Costing and M&E plans)

		4.2 Status of dissemination of findings on sub-national public spending and development trends towards Vision 2040 targets	The subnational forecasting capability of the International Futures' (IF) tool was developed in 3 research projects	Data collection (FY 2020/21) Report on feasibility of selected Vision 2040 goals and targets (FY 2021/22)	Annual Reporting of Frederick S. Pardee Center for International Futures (IFs), University of Denver