



UGANDA INTERGOVERNMENTAL FISCAL TRANSFERS REFORM PROGRAM (IGFTRP)

ANNUAL REFORM IMPLEMENTATION REPORT FOR FY 2019/20

MAY 2021



THE REPUBLIC OF UGANDA

UGANDA INTER-GOVERNMENTAL FISCAL TRANSFERS REFORM PROGRAM (IGFTRP)

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Building quality local services and infrastructure
for Health, Education, Water, Irrigation



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ACRONYMS

AF	Additional Financing
BE	Budget Execution
BFP	Budget Framework Paper
BMAU	Budget Monitoring and Accountability Unit
BoQs	Bill of Quantities
BPED	Budget Policy and Execution Department
BSI	Budget Strengthening Initiative
BTVET	Business Technical and Vocational Education and Training
CAO	Chief Administrative Officer
CB	Capacity Building
DDEG	Discretionary Development Equalization Grant
DEC	District Executive Committee
DFID	Department for International Development
DINU	Development Initiative for Northern Uganda
DLG	District Local Government
DLI	Disbursement Linked Indicator
DP	Development Partner
EMIS	Education Management Information System
FD	Fiscal Decentralisation
FDS	Fiscal Decentralisation Strategy
FDSC	Fiscal Decentralization Steering Committee
FDTC	Fiscal Decentralization Technical Committee
FDU	Fiscal Decentralisation Unit
FINMAP	Financial Management and Accountability Program
FY	Financial Year
GAPR	Government Annual Performance Report
GOU	Government of Uganda
HIMS	Health Information Management System
HLG	Higher Local Government
IGFTR	Intergovernmental Fiscal Transfer Reforms
IGFTRP	Intergovernmental Fiscal Transfer Reforms Programme

IFMS	Integrated Financial Management System
IPFs	Indicative Planning Figure
ISSD	Infrastructure and Social Services Department
LGPAS	Local Government Performance Assessment System
LG	Local Government
LGFC	Local Government Finance Commission
LGPA	Local Government Performance Assessment
LGPITF	Local Government Performance Improvement Task Force
LLG	Lower Local Government
LRDP	Luwero Rwenzori Development Programme
MC	Municipal Council
MDAs	Ministries, Departments and Agencies
MEC	Municipal Executive Committee
M&E	Monitoring and Evaluation
MoAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MoFPED	Ministry of Finance, Planning and Economic Development
MoGLSD	Ministry of Gender, Labour and Social Development
MLG	Municipal Local Government
MoES	Ministry of Education and Sports
MoH	Ministry of Health
MoLG	Ministry of Local Government
MoLHUD	Ministry of Lands, Housing and Urban Development
MoPS	Ministry of Public Service
MoWE	Ministry of Water and Environment
MoWT	Ministry of Works and Transport
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NAADS	National Agricultural Advisory Service
NEMA	National Environment Management Authority
NMS	National Medical Stores
NDP	National Development Plan
NRP	National Resource Pool
NWR	Non-Wage Recurrent
ODI	Overseas Development Institute
OPAMS	Online Performance Assessment Management System
OPM	Office of the Prime Minister
OTIMS	Online Transfer Information Management System

O/W	Of Which
PA	Performance Assessment
PBB	Performance Based Budgeting
PBS	Performance Budgeting System
PEF	Program Expenditure Framework
PFAA	Public Finance and Accountability Act
PFMA	Public Finance Management Act
PHC	Primary Health Care
PIP	Performance Improvement Plan
PNFP	Private Not-For Profit
POM	Program Operations Manual
PRDP	Peace Recovery and Development Programme
PPDAA	Public Procurement and Disposal of Assets Authority
PSM	Public Sector Management
RDC	Resident District Commissioner
RBF	Results Based Financing
SAGE	Social Assistance Grants for Empowerment
SC	Sub County
SESIL	Strengthening Education Systems for Improved Learning
TC	Town Clerk
TPC	Technical Planning Committee
TSA	Treasury Single Account
UAAU	Urban Authorities Association Uganda
UBOS	Uganda Bureau of Statistics
UCE	Uganda Certificate of Education
UGX/UShs	Uganda Shillings
UgIFT	Uganda Intergovernmental Fiscal Transfer Program
UPE	Universal Primary Education
UPOLET	Universal Post O Level Education and Training
URMCHIP	Uganda Reproductive Maternal and Child Health Service Improvement Project
USE	Universal Secondary Education
USMID	Uganda Support to Municipal Infrastructure Project
UWEP	Uganda Women Entrepreneurship Program
WB	World Bank

FOREWORD



In the early 1990s, the Government of Uganda (GoU) adopted **the Decentralization Policy**. This Policy is **enshrined in the Constitution** of the Republic of Uganda and Local Government Act Cap 243.

In the early 1990s, the Government of Uganda (GoU) adopted **the Decentralization Policy**. This Policy is **enshrined in the Constitution** of the Republic of Uganda and Local Government Act Cap 243. At the heart of the decentralization policy in Uganda is the need for Government to redistribute authority, responsibility and financial resources for providing public services from the Central Government to Local Governments. Whilst the policy envisaged a highly discretionary system of financing Local Government service delivery, from its offset, Local Governments have largely been funded through Central Government conditional grants, hence seen as limiting the discretionary powers of Local Governments.

In 2001 Government, conducted the Fiscal Decentralization Study that informed the development of the Fiscal Decentralization Strategy 2002. The objectives of the FDS 2002 were to strengthen the process of decentralization by increasing the Local Government's autonomy, widening local participation in decision making and streamlining the fiscal transfer modalities to the LGs to increase their efficiency in achieving the National Development Goals within a transparent and accountable framework.

Whereas the implementation of the FDS had several achievements, which included the streamlining of budgeting and reporting processes, it did not achieve the objectives of increasing autonomy and streamlining transfers. The number of conditional grants continued to increase and became increasingly ad hoc rather than using clear allocation formulae.

FDS (2002)

(i) **"Review of LG financing"** by the LG Finance Commission (LGFC) in 2012; and (ii) **"Service Delivery with more Districts in Uganda - Fiscal challenges and opportunities for reforms"**

In response to the shortcomings of the FDS (2002), two key studies were done: (i) **"Review of LG financing"** by the LG Finance Commission (LGFC) in 2012; and (ii) **"Service Delivery with more Districts in Uganda - Fiscal challenges and opportunities for reforms"** by the World Bank in partnership with the Ministry of Finance, Planning and Economic Development (MoFPED).

The two studies recommended broader reforms in the financing of Local Governments in Uganda, to enable improved quality of service delivery across all sectors. In



This document,
therefore,
**explains the
progress in
implementation**
of the Inter-
Governmental
Fiscal Transfer
Reform Program
(IGFT) in FY
2019/20.

FY 2015/16, Government, spearheaded by the Ministry of Finance, Planning and Economic Development worked with all Sector Line Ministries with grant transfers to Local Governments to develop the Inter-Governmental Fiscal Transfer Reform Program.

This document, therefore, explains the progress in implementation of the Inter-Governmental Fiscal Transfer Reform Program (IGFT) in FY 2019/20. Within the report, you will note tremendous achievement in the level of financing of Local Governments as well as identifies areas where Government will continue improving in the medium term.

I, therefore, wish to take this opportunity to thank the First Lady and Hon. Minister of Education and Sports, the Hon. Minister of Health, the Hon. Minister of Agriculture, Animal Industry and Fisheries and the Hon. Minister of Water and Environment and all your respective Permanent Secretaries for your Policy and oversight guidance towards this reform.

I also appreciate the Office of the Prime Minister, Ministry of Local Government, Ministry of Gender, Labour and Social Development, Ministry of Works and Transport, PPDA, NEMA, LGFC and Office of the Auditor General for their commitment and tireless support to the implementation of the cross-cutting commitments under this reform.

Lastly, on behalf of the Government, I wish to extend appreciation to our Development Partners; the World Bank and the European Union for their financial contribution in supplementing funding to education, health, water, agriculture and DDEG, The Department for International Development (DFID) and Overseas Development Institute (ODI) for supporting Government during the design and execution stages of the phases of the IGFT reform Programme.

Thank you.

Patrick Ocailap

For: PERMANENT SECRETARY/SECRETARY
TO THE TREASURY

1.1. Background

In the early 1990s, the Government of Uganda (GoU) adopted **the Decentralization Policy**. This Policy is enshrined in the Constitution of the Republic of Uganda and LG Act Cap 243. Within this Policy, Local Governments have the primary mandate of providing front line services, funding them through Locally Raised Revenues and Grant transfers from the Central Government. On the other hand, the role of the Central Government is to guide the Local Governments by developing and enforcing sector policies, standards, sector budget guidelines, providing technical supervision and support to enhance the quality of Local Service Delivery at the Local Government level.

In the implementation of the Decentralization Policy, Government observed some challenges that affected its smooth implementation. As such, 3 key studies were undertaken and these included; **Fiscal Decentralization Study (2001) and Strategy (2002)**; the **“Review of LG financing”** by the LG Finance Commission (LGFC) in 2012; and (ii) **“Service Delivery with more Districts in Uganda - Fiscal challenges and opportunities for reforms”** by the World Bank in partnership with the Ministry of Finance, Planning and Economic Development (MoFPED).

These studies provided a foundation for the **Inter-Governmental Fiscal Transfer Reform Programme (IgFTRP)** which began in **FY 2015/16**. **The IGFTRP document was designed and approved in 2017** to formalize steps undertaken under the Intergovernmental Fiscal Transfer Reforms in an official government policy document. The key focus of the IgFTRP is to address the challenges in the financing of Local Government Service Delivery through:

- i) **Restoration of adequacy in the financing of service delivery** - To restore adequacy in the financing of service delivery, the Government of Uganda (GoU) agreed to make increases, on an annual basis, to Local Government (LG) Wage, Non-Wage recurrent and Development transfers based on a Medium-Term Plan (MTP) for uplifting these transfers covering FY 2017/18-2022/23 (Annex to the IGFTRP Document - 2017);
- ii) **Ensuring equity in the allocation of funds to LGs for service delivery** - For Government to achieve equity in the allocation of funds to LGs for service delivery, Government committed to allocate all LG grants based on objective, transparent and equitable allocation formulae. In a consultative process involving all stakeholders, the Government developed principles to guide the development of allocation formulae which are revised annually upon agreement between the LGs and central government.
- iii) **Improving the efficiency of LGs in the delivery of services** - To improve the efficiency of LGs in the delivery of services, Government committed to maintaining consolidated Local Government grant framework in each Sector including one Wage, Non-Wage Recurrent and Development grant. In addition, an annual Local Government Performance Assessment (LGPA) is conducted to promote effective behaviour, systems and procedures of importance for efficient LG administration and service delivery by linking its results to development allocations across various development grants i.e. Discretionary Development Equalization Grant (DDEG), Education, Health & Water.

The LGPA is complemented with Performance Improvement Plans (PIPs) which are implemented with support from central Ministries, Departments and Agencies (MDAs) in the worst-performing LGs.

The implementation of the Reform Programme- in particular the financing of the additional allocations to Local Government Grants, is largely funded by domestic resources from the Government of Uganda and complemented with donor financing from the World Bank (WB) and European Union (EU), as follows:

- i) **Uganda Intergovernmental Fiscal Transfers Program (UgIFT)**- The World Bank has committed **US\$500m¹** in Education, Health, Water and Agriculture, including support to refugee-hosting Local Governments over the period FY 2017/18-2023/24;
- ii) **Uganda Support to Municipal Infrastructure Development Program (USMID)**: The World Bank committed US 410 million towards the USMID programme to support the uplift of infrastructure and improved institutional performance (e.g. own source revenue generation) in Municipalities/Cities and refugee-hosting Local Governments. The resources are mainly channeled through the Discretionary Development Equalization Grant (DDEG) grant.
- iii) Finally, **the European Union will be providing budget support over FYs 2020/21 to 2022/23** to the Government of Uganda to improve local investment and service delivery to the citizens in line with the objectives of the IgFTR programme.

This report, therefore, outlines the progress made in the implementation of the IGFTTR programme during FY 2019/20 including the preparation and approval of the FY 2020/21 budget.

1.2. Structure of the Report

This report is structured into six main parts. These include:

- 1) **Part 1:** Introduction and background to the program;
- 2) **Part 2:** Intergovernmental Fiscal Transfer Reform Program Institutional arrangement;
- 3) **Parts 3, 4, 4 and 6:** provides details on the progress made by the reform against the adequacy, equity and efficiency goals respectively. Finally, section six describes the next steps of the IGFTTRP.

¹ USD 200 million committed in FY2018/19 to support the uplift of intergovernmental fiscal transfers targeting investments in the education and health sectors over Financial Years (FYs) 2017/18-2021/22. An additional financing of USD 300 million (i.e. USD 240 million credit and USD 60 million grant) to expand the scope of the program to the water and environment, and agriculture sectors and extend its duration to FY 2023/24 is in the process of being approved by the Government (see section 7.2);

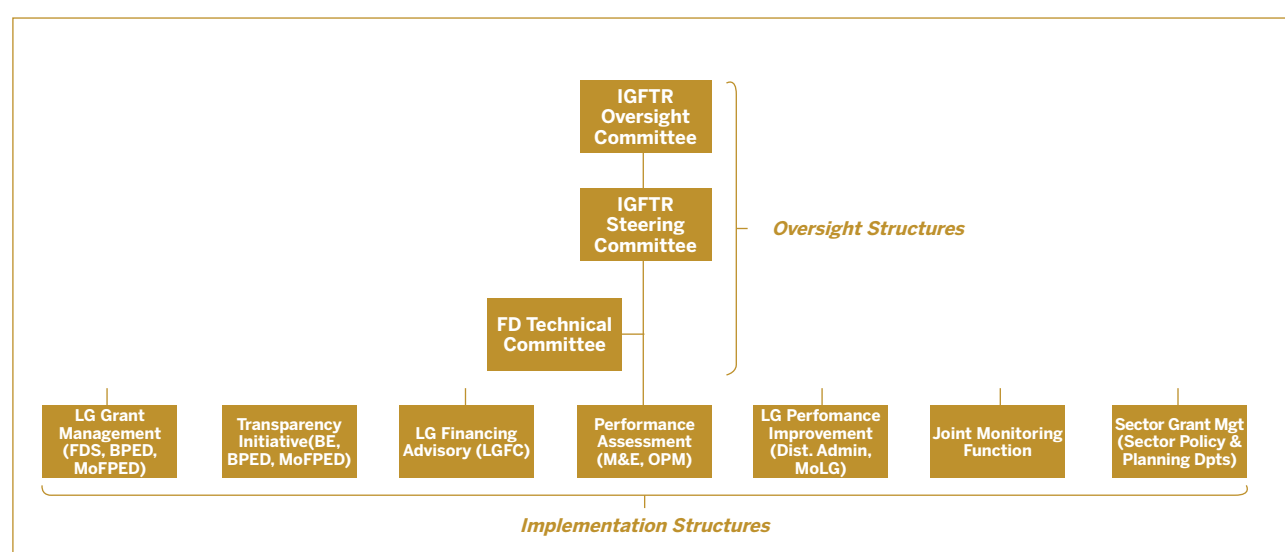
2.0. INSTITUTIONAL SET-UP OF THE IGFTRP

2.1. Objectives of the Oversight and Implementation Structures.

One of the targets of the IGFTRs is to strengthen the Central Governments' oversight role in coordinating Decentralized Service delivery, through strengthening existing GoU structures across various Ministries, Departments Agencies and Local Governments. The following oversight Committees were created:

- i) IGFT Oversight Committee composed of Ministers;
- ii) the IGFT Steering Committee composed of Permanent Secretaries; and
- iii) the IGFT Technical Committee is composed of Technical Staff as indicated in figure 1 below.

Figure 1. Fiscal Decentralization Reforms – Oversight and Implementation Structures



2.2. Oversight and Implementation Structures

Table 1 below outlines the composition of each of the oversight and implementation structures against the assigned roles in relation to the Program.

Table 1: Overview of UGIFT Governance Arrangements

Oversight Structure	Composition	Roles
<p>The IGFT Oversight Committee</p> <p>Meeting at least twice a year, and whenever the need arises.</p>	<ul style="list-style-type: none"> Chair: Minister of Finance, Planning and Economic Planning. Members: <ul style="list-style-type: none"> Ministers of MoH, MoES, OPM (General Duties), MoLG, MoPS, MoLHUD, MoWT and Chairperson of LGFC. Other Ministers will be co-opted depending on the issue being discussed Secretary: Permanent Secretary/ Secretary to the Treasury, MoFPED 	<p>Responsible for providing oversight and policy guidance to the design and implementation of all aspects of the Intergovernmental Fiscal Transfer Reforms</p>
<p>The IGFT Steering Committee</p> <p>Meeting quarterly</p>	<ul style="list-style-type: none"> Chair: Permanent Secretary/Secretary to the Treasury Members: <ul style="list-style-type: none"> Permanent Secretaries of MoH, MoES, MoWE, OPM, MoLG, MoPS, MoLHUD, MoWT and Secretary LGFC. Other Permanent Secretaries will be co-opted depending on the issue being discussed Secretary: Director Budget, MoFPED 	<p>Overall responsibility for providing strategic direction and guidance to the design and implementation of all aspects of the Intergovernmental Fiscal Transfer Reforms including but not limited to:</p> <ul style="list-style-type: none"> Approval of the LG Performance Assessment Manual and Annual LG Performance Assessment Results; Approval of the grant allocation formulae. Ensure the achievement of Disbursement Linked Indicators relating to UglFT Program for results.

Oversight Structure	Composition	Roles
<p>The IGFT Technical Committee</p> <p>Meets at least quarterly</p>	<ul style="list-style-type: none"> • Chair: Director Budget, MoFPED • Co-chair 1: Director Research and Revenue, LGFC • Co-chair 2: Director, M&E, OPM • Members: <ul style="list-style-type: none"> ○ Representatives with members who handle transfers at a senior level from MoFPED (BPED, ISSD); MoLG; LGFC; OPM, ministries making transfers to local governments ○ NEMA and MoGLSD to provide input into issues of Environmental and Social Safeguards ○ Representatives from LGs (Urban Authorities Association Uganda, Uganda LG Association etc.) – as ex-officials • Secretary: Commissioner BPED, MoFPED 	<p>Overall responsibility for overseeing and coordinating, at a technical level, the grants, assessment and targeted technical support including but not limited to:</p> <ul style="list-style-type: none"> • The implementation of the grant allocation formulae to ensure equitable allocation of funds across LGs; • The releases to local governments, ensuring timeliness; • Technical review and verification of the local government performance assessment manuals as well as results and ensure applications of the results during the allocation of grants • Handle grievances related to local government transfers and results of the LG performance assessment. • Offer technical guidance on the provision of targeted support to the weak local governments to ensure that the identified gaps are addressed. • Compile, monitor and troubleshoot the achievement of all results (Disbursement Linked Indicators) relating to the UglFT Program for results.

3.0.

ADEQUACY OF INTERGOVERNMENTAL FISCAL TRANSFERS

3.1. Objectives of improving the adequacy of Intergovernmental Fiscal Transfers

As mentioned above, to restore adequacy in the financing of service delivery, the Government of Uganda (GoU) agreed to make increases, on an annual basis, to Local Government (LG) Wage, Non-Wage recurrent and Development transfers based on a Medium-Term Plan for uplifting Local Government Grants over FY 2017/18-2022/22 included in the IGFTRP document (2017), as shown in the table below:

Table 2: Medium Term Plan for Uplifting Local Government Transfers

		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Sector Wage Grants							
Agriculture	Agriculture Extension	40	42	44	46	48	50
	Agriculture Total	40	42	44	46	48	50
Education	Primary Education	906	951	999	1,049	1,101	1,156
	Secondary Education	214	225	236	248	261	274
	Skills Development	35	36	38	40	42	44
	Education Total	1,155	1,213	1,273	1,337	1,404	1,474
Health	Primary Health and Sanitation Services	290	304	320	336	352	370
	District Hospital Services	n/a	n/a	n/a	n/a	n/a	n/a
	Health Total	290	304	320	336	352	370
Wage recurrent total		1,484	1,559	1,636	1,718	1,804	1,894
Sector Non-Wage Recurrent							
Agriculture	Production & Commercial Services	7	8	9	10	10	10
	Agriculture Total	7	8	9	10	10	10

		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Education	Primary Education	68	90	106	120	132	144
	Secondary Education	127	162	190	217	242	265
	Skills Development	32	38	42	48	48	51
	Education Mgmt and Inspection	5	6	6	7	7	7
	Education Total	231	296	344	392	430	467
Health	Primary Health and Sanitation Services	27	42	54	68	83	100
	District Hospital Services	19	25	31	38	46	54
	Health Management	n/a	n/a	n/a	n/a	n/a	n/a
	Health Total	46	67	85	107	129	155
Water and Environment	Rural Water Supply and Sanitation	4	5	6	7	7	7
	Urban Water Supply and Sanitation	3	3	3	4	4	4
	Natural Resources Management	1	1	1	1	1	1
	Water and Environment Total	8	9	10	12	12	12
Social Development	Com. Mobilisation and Empowerment	8	9	10	12	12	12
	Social Development Total	8	9	10	12	12	12
Non-Wage Recurrent Total		299	389	458	532	592	657
Sector Development							
Agriculture Development		7	8	10	12	12	13
Works and Transport Development		23	30	36	43	43	45
Education Development		33	73	80	100	104	107
Health Sector Development		0	50	61	68	73	77

		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Water and Environment Development		48	63	76	91	91	95
Development Total		110	224	263	314	323	337
Unconditional Grant							
District	Wage Recurrent	173	181	190	200	210	220
	Non-Wage Recurrent	81	98	107	123	123	130
	Total District	254	279	298	323	333	350
Urban	Wage Recurrent	46	48	51	53	56	59
	Non-Wage Recurrent	28	34	37	43	43	45
	Total Urban	74	82	88	96	98	103
Discretionary Recurrent Total		328	361	385	419	432	453
Discretionary Development Equalisation Grant							
District	PRDP	93	93	93	96	96	100
	LRDP	13	23	34	46	46	48
	Other	16	43	63	87	87	91
	Total District	122	158	190	228	228	240
Urban	Large Municipalities (USMID)	98	13	17	21	21	22
	Other Municipalities and Divisions	9	6	7	9	9	10
	Town Councils	6	6	6	6	6	6
	Total Urban	113	25	30	36	36	38
DDEG Total		234	183	220	264	264	277
Transition and Support Services							
Recurrent	Pensions & Gratuity	236	160	176	203	203	203
	Total Non-Wage	236	160	176	203	203	203
Development	Education Transitional grant	14	14	14	0	0	0
	Health Transitional grants	10	3	2	1	0	0
	PSM	12	13	13	13	13	13
	Water Transitional grants	3	3	0	0	0	0
	Total	39	24	15	14	13	13
Transition and Support Services Total		275	194	206	217	216	216

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total grants	2,731	2,910	3,169	3,464	3,631	3,835
Wage recurrent total	1,484	1,559	1,636	1,718	1,804	1,894
Non-Wage Recurrent Total	299	389	458	532	592	657
Development Total	110	224	263	314	323	337
Discretionary Recurrent Total	328	361	385	419	432	453
DDEG Total	234	183	220	264	264	277
Transition & Support Services Total	275	194	206	217	216	216

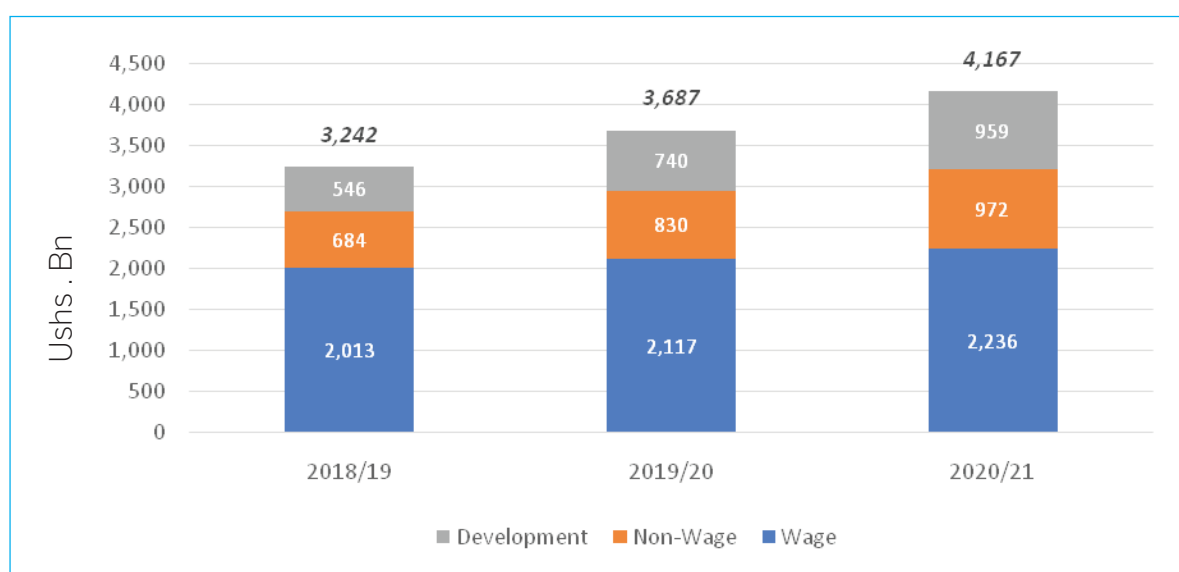
3.2. Assessing the Adequacy of Intergovernmental Fiscal Transfers

The following subsection examines how the adequacy of allocations to Local Government Grants evolved over FYs 2018/19-2020/21 and the extent to which they complied with the MTP for Uplifting LG Transfers. FY 2020/21 allocations are included in the analysis since these were prepared and approved during FY 2021/22 to which this report refers. This subsection also assesses the credibility of LG Grant allocations in FYs 2018/19 and 2019/20 by analysing the extent to which these allocations were released in full to LGs.

3.2.1. Adequacy of Aggregate Intergovernmental Fiscal Transfers Allocations

Aggregate intergovernmental fiscal transfer allocations grew by approximately 17 % over FYs 2018/19-2019/20 and 13 % over FYs 2019/20-2020/21 in nominal terms. The nominal growth observed in LG Grants allocations over the past two FYs was mainly driven by increases in Development Grants (i.e. 64 % - 2019/20, 30 % – 2020/21), followed by the growth of Non-Wage Recurrent Grants (i.e. 21%– 2019/20, 18 % – 2020/21) and Wage Grants (i.e. 5% – 2019/20, 6% – 2020/21) (see figure 2).

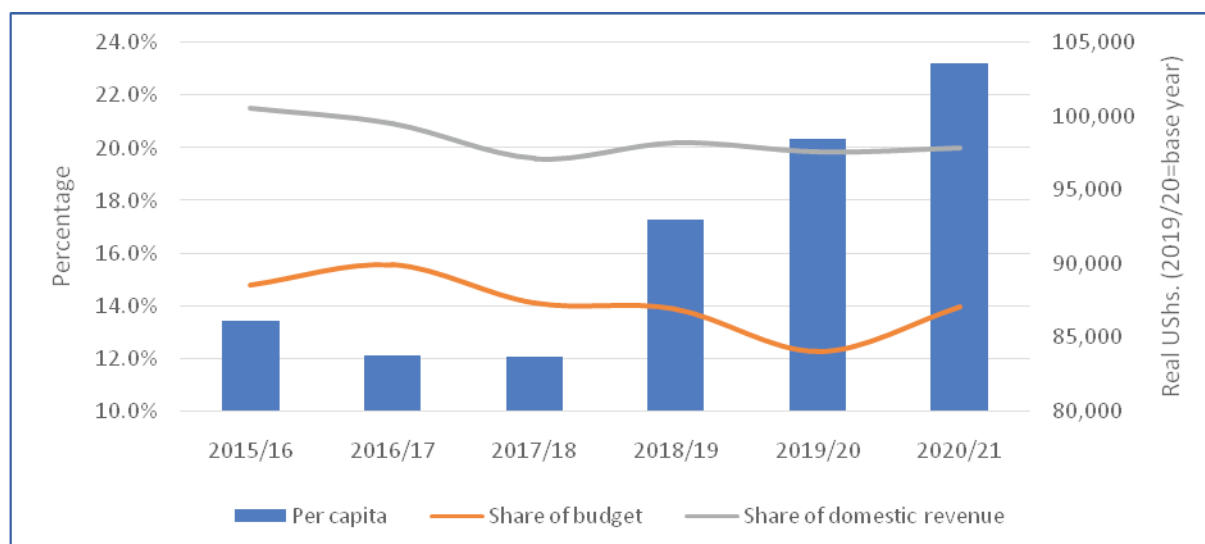
Figure 2: Aggregate Inter-Governmental Fiscal Transfers Allocations, 2018/19-2020/21 (Ushs. Bn)



The nominal growth observed over the past two financial years reflects a trend of improvement in the adequacy of intergovernmental fiscal transfers which started in FY 2017/18.

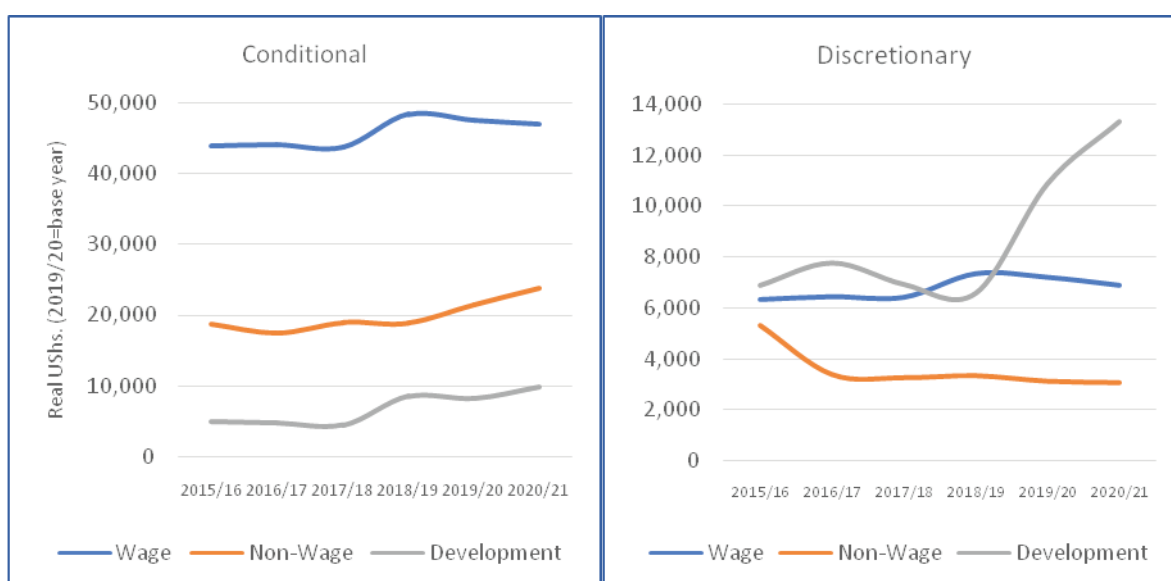
By FY 2020/21, fiscal transfers had grown by 20% in real per capita terms over FY 2015/16 levels (see figure 3). Over this period the share of domestic revenue allocated to fiscal transfers also stabilized at 20%. Furthermore, the downward trend in the share of the budget allocated to fiscal transfers was finally reversed in FY 2020/21 (i.e. increasing from 12 to 14% of the budget).

Figure 3. Trends in total transfers allocations since the start of the reforms



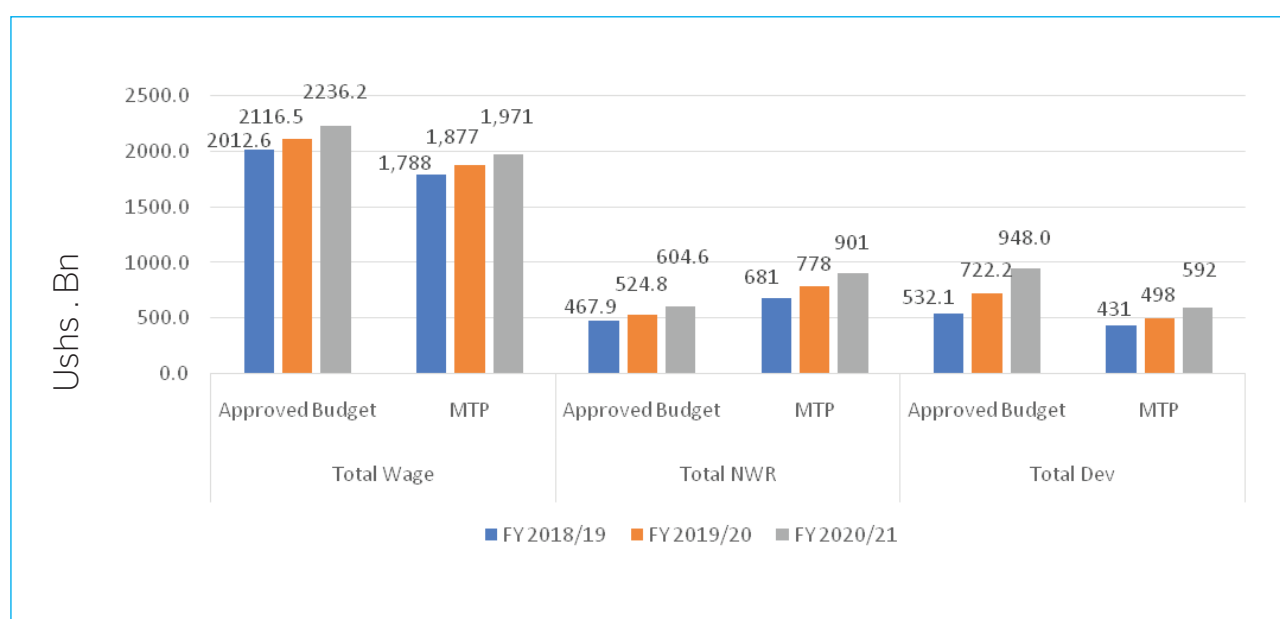
This improvement reflects an effort by the Government of Uganda to improve the adequacy of funding to key social sectors, urban infrastructure and refugee-hosting local governments with the support of donor funding (e.g. UgIFT and USMID programmes). Of the 20 % real per capita increase observed between FY 2015/16 and 2020/21, 52 % was accounted for by the Education, Health, Water & Environment, and Agriculture conditional grants (supported by the UgIFT programme). Discretionary Grants accounted for another 27 % of the total real per capita growth driven by the expansion of the USMID programme funding (i.e. Ushs 101 bn - 2018/19; Ushs 284 bn - 2019/20; Ushs 417 bn - 2020/21).

Figure 4. Trends in transfers allocations by economic classification since the start of the reforms (real per capita values)



Overall, aggregate allocations to LG Grants consistently surpassed the targets set in the MTP over FYs 2018/19-2020/21 demonstrating the Government's commitment to improving the adequacy of Local Government Financing (see figure 5). Nevertheless, while the targets for Wage and Development grants were consistently met, Non-Wage Recurrent grant allocations were lower than projected MTP targets in approved budgets of FYs 2018/19-2020/21. This disparity suggests that a higher effort might be necessary for future financial years to re-establish the adequacy of Non-Wage Recurrent grant allocations. The government has committed to correct this disparity over the medium-term by committing additional resources to Non-Wage Recurrent grants from FY 2020/21 onwards. [NB: The next subsection presents a detailed analysis of MTP compliance by grant.]

Figure 5. LG Grant Allocations 2018/19-2020/21 (Ushs. Bn): Approved Budget vis-a-vis MTP Targets



3.2.2. Adequacy of Individual Local Government Grants

Table 3 provides detailed information on the evolution of individual Local Government grants in nominal and real per capita terms over FY 2018/19-2020/21. In the education sector, there was a considerable increase in the allocations to the secondary education wage grant and the conditional development grant due to the investment in the construction and staffing of the new seed secondary schools (see section 4.2.1). In addition, the adequacy of the Primary Education non-wage recurrent grant improved substantially (i.e. 58 per cent in real per capita terms) owing to the capitation grant increases agreed under the UglFT programme (see section 4.2.1). In the health sector, the non-wage recurrent grant nearly doubled in real per capita terms (i.e. 87 %) reflecting the Government's commitment to increase the operational funding of health facilities.² The Water & Environment non-wage recurrent and development grants allocations also increased considerably in FY 2020/21 following a long period of stagnation as a result of the expansion of the scope of the UglFT programme to this sector.

² The Health Conditional Development Grant stabilized in real per capita terms over FY 2018/19-2020/21 after being effectively established in FY 2018/19 to deliver on commitment made under the UglFT programme.

Overall, the District Discretionary Equalization Grant (DDEG) registered the most noticeable increase in budget allocations resulting from the aforementioned expansion of the USMID programme. Nevertheless, the additional funding channeled to the DDEG only targeted particular windows of the grant leaving a large number of Local Governments with inadequate levels of discretionary development funding (see section 4.2.4).³

Table 3. Trends in Individual LG Grants (FYs 2018/19-2020/21)

Grant	Sector	Nominal (Ushs Bn)				Real Per Capita (Ushs, 19/20 prices)			
		FY 2018/19	FY 2019/20	FY 2020/21	% Change FY 18/19-20/21	FY 2018/19	FY 2019/20	FY 2020/21	% Change FY 18/19-20/21
Wage	Education	1251.7	1328.3	1421.1	14%	34,629	34,353	34,188	-1%
	o/w Primary	918.7	919.9	978.1	6%	25,415	23,792	23,531	-7%
	o/w Secondary	277.6	344.5	376.7	36%	7,679	8,911	9,062	18%
	Health	424.5	437.0	452.2	7%	11,744	11,303	10,878	-7%
	Agriculture	71.6	73.5	77.3	8%	1,981	1,900	1,859	-6%
	Unconditional	264.7	277.8	285.6	8%	7,324	7,184	6,872	-6%
Non-Wage Rec.	Education	255.3	298.1	334.6	31%	7,061	7,709	8,050	14%
	o/w Primary	85.1	131.8	154.8	82%	2,354	3,408	3,725	58%
	o/w Secondary	137.4	130.7	144.2	5%	3,802	3,381	3,469	-9%
	Health	39.9	56.2	85.9	115%	1,104	1,453	2,067	87%
	o/w Hospital	14.3	19.6	30.0	110%	395	507	722	83%
	o/w PHC	25.6	36.6	55.9	118%	710	946	1,346	90%
	Agriculture	36.0	33.8	33.8	-6%	996	873	812	-18%
	Water & Environment	8.6	8.6	15.5	81%	237	222	373	57%
	Works & Transport	117.8	120.7	139.8	19%	3,258	3,121	3,362	3%
	Trade & Industry	0.0	2.2	2.2	N/A	0	58	54	N/A
	Social Development	7.6	7.6	7.6	0%	211	198	184	-13%
	Unconditional	120.5	120.5	127.1	5%	3,335	3,118	3,059	-8%
De-velop-ment.	Education	130.2	153.6	188.4	45%	3,603	3,973	4,533	26%
	Health	74.2	59.0	87.1	17%	2,053	1,526	2,095	2%
	Agriculture	15.4	15.4	15.8	3%	425	397	380	-11%
	Water & Environment	51.9	51.5	79.4	53%	1,436	1,333	1,910	33%
	Works & Transport	23.4	22.9	24.8	6%	648	592	596	-8%
	DDEG	236.9	419.7	552.5	133%	6,553	10,856	13,291	103%

³ The USMID programme only covers municipalities created before 2016/17 and some of the refugee hosting districts (22 Municipalities and 8 Districts).

The nominal growth observed in the remaining sectoral grants was far less significant, in particular for Non-Wage Recurrent (NWR) and Development grants. In the Agriculture sector, the NWR grant decreased in both nominal and real per capita terms - the most pronounced decrease amongst all LG Grants - while the development grant registered a modest nominal increase of 3% over FYs 2018/19-2020/21.⁴

In the Works & Transport sector, the adequacy of the NWR grant registered a marginal improvement (3 % increase in real per capita terms) while the allocation to the Development grant remained at roughly the same level translating into lower real per capita funding. Finally, the adequacy of the Trade & Industry, Social Development and Unconditional NWR grants deteriorated substantially over the past three financial years owing to the stagnation of the allocations to these areas in nominal terms. This disparity results from the prioritization of the uplifting of Education, Health, Water & Environment and DDEG grants in the first stage of the reform. The restoration of the adequacy of the remaining grants described above will be conducted over the medium term.

Table 4 shows the extent to which budget allocations at the grant level complied with the IGFTRP (2017) MTP over FY 2018/19-2020/21 (i.e. the difference between approved allocations and MTP targets). Amongst the Wage grants, the only sector where allocations were consistently below MTP targets was Primary Education. On the other hand, allocations to all NWR grants were lower than MTP targets except the agriculture sector.

The Government complied with the targets for Development grant allocations for education, health (i.e. 2018/19 and 2020/21), agriculture, and DDEG grants (i.e. 2019/20 and 2021/22). However, despite significant efforts to increase the nominal allocations to the Water & Environment, and Works & Transport Development grants, the government was not able to fully comply with MTP targets for these grants.

4 I) Prior to the period covered in this report, the Agriculture sector had already experienced a significant decline in total funding resulting from the centralization of extension services into the National Agriculture Advisory Services (NAADS). The trend described in this report is unrelated to that event.
II) The Additional Financing of the UglFT Program targets the Micro-Scale Irrigation sub-sector under agriculture. This will translate into substantial increases to the Agriculture development grant from FY 2021/22.

Table 4. Compliance with the IGTRP MTP Targets: Approved Budget Allocations – MTP Targets (Compliant=Green, Uncompliant=Red)

Grant	Sector	Comparison MTP		
		FY 2018/19	FY 2019/20	FY 2020/21
Wage	Education	38.7	55.3	84.1
	o/w Primary	-32.3	-79.1	-70.9
	o/w Secondary	52.6	108.5	128.7
	Health	120.5	117.0	116.2
	Agriculture	29.6	29.5	31.3
	Unconditional	35.7	36.8	32.6
Non-Wage Recurrent	Education	-40.7	-45.9	-57.4
	o/w Primary	-4.9	25.8	34.8
	o/w Secondary	-24.6	-59.3	-72.8
	Health	-27.1	-28.8	-21.1
	o/w Hospital	-10.7	-11.4	-8.0
	o/w PHC	-16.4	-17.4	-12.1
	Agriculture	28.0	24.8	23.8
	Water & Environment	-0.4	-1.4	3.5
	Works & Transport	N/A	N/A	N/A
	Trade & Industry	N/A	N/A	N/A
	Social Development	-1.4	-2.4	-4.4
	Unconditional	-11.5	-23.5	-38.9
Development	Education	57.2	73.6	88.4
	Health	24.2	-2.0	19.1
	Agriculture	7.4	5.4	3.8
	Water & Environment	-11.1	-24.5	-11.6
	Works & Transport	-6.6	-13.1	-18.2
	DDEG	-104.1	9.7	60.5

3.2.3. The credibility of Budget Allocations

Budget allocations to local government grants remained credible over FYs 2018/19 and 2019/20 as shown by table 3. During the last two financial years Wage, Non-Wage Recurrent and Development grants were released in full reflecting the Government's commitment to improving the adequacy of Local Government financing.

Table 5. Grant Releases as % of Budget Allocations by Economic Classification

Grant Type	FY 2018/19	FY 2019/20
Wage	100%	100%
Non-Wage Recurrent	100%	100%
Development	100%	100%

4.1. The objective of Equity of Intergovernmental Fiscal Transfers

The IGFTRP includes a government commitment to ensure that all resources are allocated based on objective, transparent and equitable allocation formulae. In a consultative process involving all stakeholders, the Government developed principles to guide the development of allocation formulae which are annually agreed upon between the LGs and central government, as follows:

- i) Central Government will allocate resources to LGs objectively and transparently, publishing all allocations, socio-economic data and allocation formulae used on a publicly accessible platform. This will not only help achieve objectivity but also transparency and accountability in the allocation of resources.
- ii) A temporary provision has been made for ad hoc allocations and pilot initiatives to be funded through the transfer systems under recurrent “support services” and “transitional development” grants.

This chapter evaluates the extent to which this objective of the reform has been met, based on the approved budget allocations of FYs 2018/19-2020/21.

4.2. Assessment of Progress towards Equitable Allocations

4.2.1. Equity of Aggregate Intergovernmental Fiscal Transfers

The equity of wage and non-wage recurrent grants improved marginally during the past three financial years as shown by table 6. The more equitable distribution of non-wage recurrent grants reflects a long trend of improvement since 2015/16 resulting in the introduction of formulae-based allocations for this type of grant. The equity of wage grants also registered a small improvement over 2018/19-2020/21; however, there are some needed improvements in the distribution of wages, to make them more responsive to the need to have more equitable recruitments across LGs⁵

For development grants, the ratio between the allocation to the best and least funded local governments in per capita terms increased from 34 to 81 over 2018/19-20/21 reflecting the inequities caused by the expansion of USMID funding to the DDEG grant (75 % of total DDEG funding, 2020/21), the biggest contributor to the disparities observed in total per capita fiscal transfers across local governments (see table 4).⁶ Nevertheless, if USMID funds are excluded, the equity of development grant allocation shown a slight improvement vis-à-vis the earlier years of the reform (i.e. FY 2015/16) as a result of recent improvements made to the allocation formulae of different conditional grants.⁷

⁵ The Gini Index for wage grants increased from 0.187 to 0.213 between 2015/16 and 2020/21. This was primarily a result of a wage increase for teachers in health workers implemented in 2016/17.

⁶ As a whole, the DDEG grant represented 13 percent of total intergovernmental fiscal transfers in FY 2020/21.

⁷ The Gini Index for development grants excluding USMID decreased from 0.331 to 0.313 between 2015/16 and 2020/21.

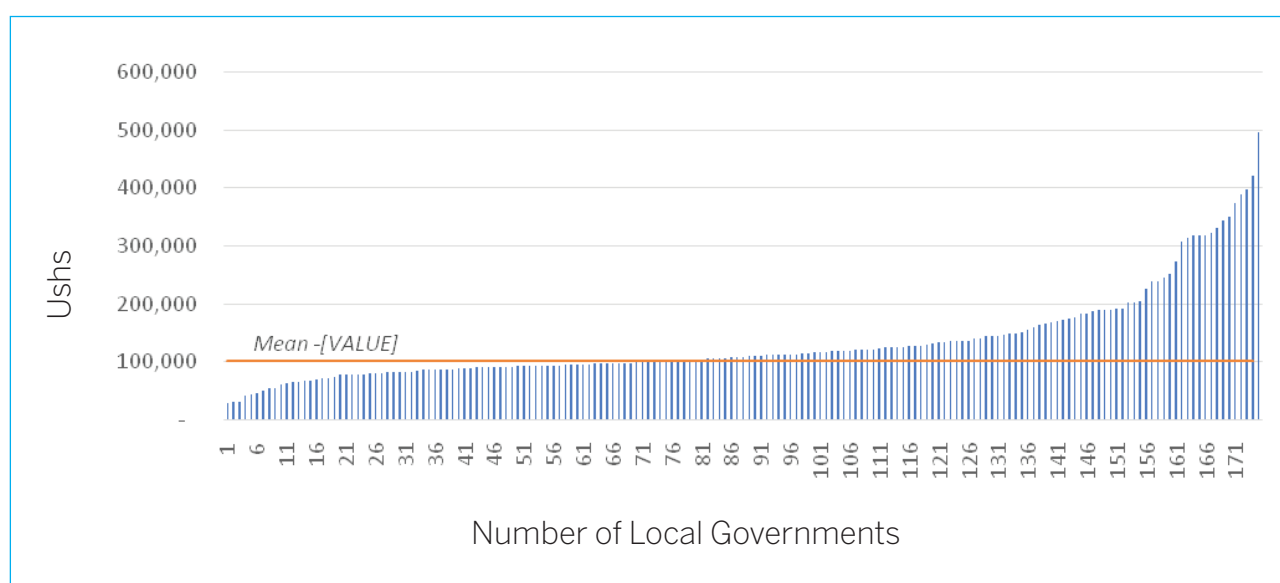
Table 6: Equity of Total Fiscal Transfers and by Economic Classification (FYs 2018/19-2020/21)

Equity of Fiscal Transfers	18/19	19/20	20/21	18/19	19/20	20/21	Note
	Aggregate			Wage			
Average Transfer per capita	85,813	95,327	104,867	53,280	54,740	56,272	
20 least funded LGs/ Average Transfer per capita	52%	53%	54%	48%	53%	54%	Higher Better
Max/Min Ratio	15	19	18	23	16	15	Lower Better
	Non-Wage Recurrent			Development			
Average Transfer per capita	18,083	21,459	24,464	14,450	19,129	24,131	
20 least funded LGs/ Average Transfer per capita	51%	50%	53%	40%	30%	28%	Higher Better
Max/Min Ratio	12	33	11	34	99	81	Lower Better

The marginal improvement in the equity of wage grants (which accounted for 64% of total transfers in 2019/20) and the deterioration of the equity of development grant allocations resulted in the maintenance of overall inequalities in total per capita financing at approximately the same level over FYs 2018/19-2020/21.

The ratio between the total allocation to the best and least funded local governments in per capita terms – showing the disparity in local government financing - increased from 15 in 2018/19 to 18 in 2020/21 (see figure 6 and table 6). In addition, the ratio between the per capita funding to the 20 least funded local governments and the average funding per capita across all local governments increased from 52 to 54 % – showing how adequately funded these Local Governments are in comparison to the average local government.⁸

Figure 6: Distribution of Total Grants per capita (Ushs.) by Local Government, FY 2020/21



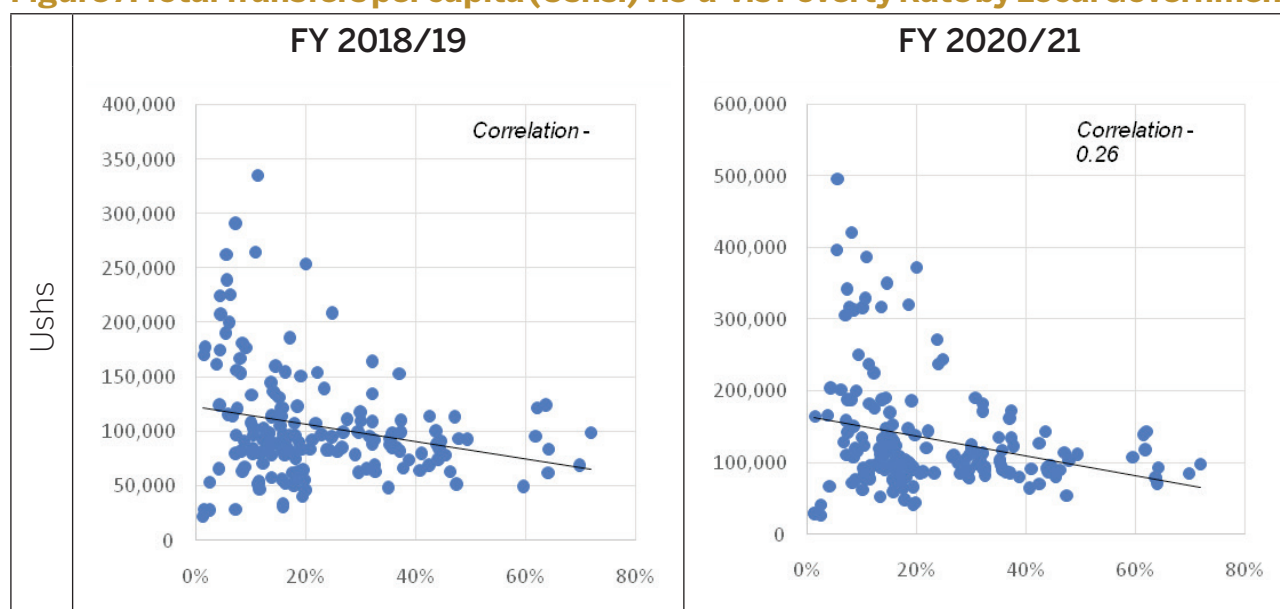
⁸ This entails that the 20 least funded local governments receive half the funding in per capita terms than the average local government.

An effective equalization regime should, ideally, allocate higher per capita funding to local governments with higher poverty rates given the expenditure needs arising from the higher incidence of morbidity, mortality and illiteracy associated with deprivation and their lower revenue-generation potential.

However, the negative correlation observed between total per capita allocations and poverty incidence in 2018/19 in Uganda has become marginally stronger over the past three years (see figure 6). This implies that local governments with higher poverty incidence tend to receive less funding in per capita terms.

Notwithstanding, the Ugandan government has committed to improve the equity of staff and wage grant distribution in the education and health sectors over the next three financial years (as part of the UglFT programme) what should have a positive impact on the indicators presented above. In addition, budget support provided by the EU over FYs 2021/22 and 2022/23 will target the least funded windows of the DDEG grant what will reduce the inequities resulting from the current distribution of funds across its different windows (see subsection 4.2.4).

Figure 7: Total Transfers per capita (Ushs.) vis-à-vis Poverty Rate by Local Government



4.2.2. Equity of Priority Local Government Grants

Substantial progress was made in improving the equity of grant allocations in priority sectors. The following subsection provides an overview of the evolution of the equity of non-wage recurrent and development grants in the Education, Health and Water & Environment grants. In addition, it provides a detailed analysis of the equity of the DDEG grant as a whole and across its different windows. Finally, it provides a summary of the impact of the inclusion of refugee communities in the population-related variables of the allocation formulae of the Education, Health and Water & Environment grants.

i). Education Conditional Grants

In the education sector, the Primary and Secondary Education Non-Wage Recurrent Sub-grants and approximately **30%** of the Development Grant (as of FY 2020/21) are allocated according to allocation formulae to increase the fairness of fund distribution

across LGs.⁹The allocation of the Formula-Based Development Grant is also influenced by the results obtained by each local government in the annual performance assessment (education indicators only, as of FY 2019/20) to incentivize efficiency in the usage of these funds while partially sacrificing the equity gains of a purely rules-based allocation.¹⁰The other **70%** of the Education Development Grant is being used to construct Seed Secondary Schools in sub-counties without one according to a policy priority established by the central government.¹¹

The allocation formulae for the grants mentioned above have changed over the past three financial years with implications on the equity of their distribution. The value of the capitation grant provided to primary and secondary schools - the main variable in the allocation of the Primary/Secondary Non-Wage Recurrent grant – has increased between 13 and 70 % over 2018/19-2020/21 across the different levels of education (see table 5).¹²On the other hand, the allocation formula of the Education Development grant remained nearly unchanged except for the introduction of the Urban Population variable and a minor reweighting of three other variables in FY 2019/20 (see table 6).

Table 7: Changes to the Primary and Secondary Education Capitation Grants, 2018/19-2020/21

Education Non-Wage Recurrent Grant				
Capitation per Student (Ushs)	2018/19	2019/20	2020/21	% Change 18/19-20/21
UPE Capitation fixed per school	1,350,000	1,350,000	1,350,000	0%
UPE Capitation per student	10,000	12,000	17,000	70%
USE Capitation per student	123,000	165,000	175,000	42%
UPOLET Capitation per student	240,000	264,000	270,000	13%

Note: * Full implementation pending approval of the supplementary budget

Table 8: Education Conditional Development Grant Allocation Formulae

Education Conditional Development Grant (Formula-Based)		
Variables	2018/19	2019/20 & 20/21
Fixed Allocation	20%	19%
Inverse Net Enrolment	30%	30%
Island Dummy	0.5%	0.5%
Land Area (Hectares)	2%	2.5%
Performance Index UPE	5%	5%
Performance Index USE	5%	5%
Pop. in Hard to Reach Hard to Stay Areas	2.5%	3%
Pop. of Primary & Secondary School Age	35%	30%
Urban Population	0%	5%

9 In 2018/19, the overall development grant was allocated via the formulae. Once the funds had been allocated, MoES informed the relevant Local Governments of how much had to be spent on the construction of Seed Schools.

10 50 percent of the development allocation to each Local Government is weighted by the coefficient between their LGPA result and the average across all Local Governments. Local Governments with above-average results with receive a top up to their formula-based allocation and vice-versa.

11 These funds are jointly managed (including the procurement process) by MoES and the respective Local Governments.

12 The full implementation of the capitation grants of Ushs. 17,000 for primary education is pending the approval of a supplementary budget.

Table 9 below reports on key equity indicators for the Primary and Secondary Non-Wage Recurrent Sub grants and the Formula-Based Development Grant.

The slight downturn registered in equity indicators for the Education Non-Wage Recurrent grant over 2018/19-2020/21 is explained by the use of enrollment rather than per school-going aged population in the allocation formulae. Given that the proportion of students enrolled in private schools or not attending schools altogether varies considerably across local governments, there will also be substantial variability in the allocations per school-going aged population. Nevertheless, these disparities are compensated by the use of population variables in the education development grant which aims to equalize access to education services across the country.

The equity of the formula-based development grant improved marginally in FY 2019/20 (as a result of the formula changes) but deteriorated considerably in the following financial year. Notwithstanding, the worse performance observed in FY 2020/21 is intended as it results from a higher dispersion in the 2019/20 Education Sector LGPA results across Local Governments which naturally translates into higher variability in per capita allocations.¹³

Table 9: Equity of Education Conditional Grants, 2018/19-2020/21

Equity - Education Grants	Non-Wage Recurrent (Primary & Secondary)			Development - Formula Based			Note
	18/19	19/20	20/21**	18/19*	19/20	20/21**	
Average Transfer per school-aged population	15,948	22,615	20,404	3,519	3,459	3,516	
20 least funded LGs/ Average Transfer per school-aged population	51%	47%	44%	74%	75%	65%	Higher better
Max/Min Ratio (per school-aged population)	15	14	14	9	7	15	Lower Better

Note: * For comparability purposes, the FY 2018/19 equity indicators concern the total development grant since it was 100% allocated via the formulae. However, the average development transfer only concerns the share not allocated to seed secondary school construction.

Note: ** Population figures are inclusive of Refugee Communities.

ii). Health Conditional Grants

In the health sector, the Primary Health Care (PHC) and Primary Health Care - Hospital (PHC - Hospital) Non-Wage Recurrent Sub-Grants and approximately 30% of the Development Grant (as of FY 2020/21) are also allocated according to allocation formulae. The allocation of the Formula-Based Health Development Grant is also influenced by the performance of each local government in the health indicators of annual performance assessment (as of FY 2019/20) to incentivize efficiency. The other 70 % of the Health Development Grant is being used to upgrade Health Centre IIs to Health Centre IIIs in sub-counties without one according to a policy priority established by the central government.

¹³ The standard deviation of the education sector performance measures increased from 14.93 to 15.89 between the 2018/19 and 2019/20 evaluations.

Table 10: Health Conditional Grants Allocation Formulae

Health Conditional Grants			
Variables	2018/19	2019/20	2020/21
	Primary Health Care - NWR		
Fixed Cost - GOV HC II/PNFP HC II (Ushs)	N/A		2,000,000/1,000,000
Fixed Cost - GOV HC III/PNFP HC III (Ushs)			4,000,000/2,000,000
Fixed Cost - GOV HC IV/PNFP HC IV (Ushs)			8,000,000/4,000,000
Number of HC III		17%	
Number of HC IV		7%	
Fixed Allocation		4%	
Poverty Headcount Ratio (%)		2%	20%
Infant Mortality (%)		8%	10%
Population (%)		60%	60%
Population in Hard to Reach Hard to Stay Areas (%)		2%	10%
	Hospital - NWR		
Fixed Cost - Public Hospitals (Ushs)	N/A		100,000,000
Fixed Cost - Private Hospitals (Ushs)			50,000,000
Fixed Allocation (Public or PNFP Hospitals)		6%	
Hospital Catchment Population (%)			60%
Population (HLGs with Public or PNFP Hospitals)		82%	
Hospital Catch. Pop. in Hard-to-Reach Areas (%)			10%
Infant Mortality (in Hospital Catch. Pop.)			10%
Infant Mortality (HLGs with Public or PNFP Hospitals)		10%	
Poverty Headcount Ratio (in Hospital Catch. Pop.)			20%
Poverty Headcount (HLGs with Pub. or PNFP Hospitals)		2%	
	Health Conditional Development		
Number of Existing GOU HCIIIs, HCIVs & Hospitals	N/A	50%	50%
Pop. per GOU/PNFP HCIIIs, HCIVs & Hospitals		50%	50%

The formulae of the two Non-Wage Recurrent sub grants were first introduced in FY 2019/20 what translated into considerable improvements in the equity of their allocation (see table 9). The changes made to the formulae in the subsequent financial year made the distribution of these funds less equitable but largely sustained the gains made in relation to FY 2018/19 (see table 9).

Overall, the ratio between the per capita allocation to the 20 least funded Local Governments and the national average increased from 34 to 44% between 2018/19 and 2020/21. In addition, the ratio between highest and least funded local governments in per capita terms decreased substantially from a factor of 27 in 2018/19 to 11 in 2020/21.

Table 11: Equity of Education Conditional Grants, 2018/19-2020/21

Equity - Health Grants	Non-Wage Recurrent			Development - Formula Based			Note
	18/19	19/20	20/21*	18/19	19/20	20/21*	
Average Transfer per capita	1,057	1,453	2,094	N/A	267	562	
20 least funded LGs/ Average Transfer per capita	34%	53%	45%	N/A	20%	41%	Higher better
Max/Min Ratio	27	7	11	N/A	343	39	Lower Better

Note: * Population figures are inclusive of Refugee Communities.

Similar improvements were observed in the equity of the allocation of the Formula-Based Development Grant (which was only effectively introduced in FY 2019/20) despite the maintenance of the same formula. The equity gains observed between 2019/20 and 2020/21 are related to a lower dispersion in the 2019/20 Health LGPA results.¹⁴

iii). Water & Environment Conditional Grants

In the water and environment sector, both Non-Wage Recurrent Sub-grants (i.e. Rural Water & Sanitation, and Natural Resources) and the Development Grant are allocated through allocation formulae. The allocation of the Development Grant is also influenced by the performance of each local government in the water and environment indicators of the annual performance assessment (as of FY 2019/20) to incentivize efficiency.

Table 12. Water & Environment Conditional Grants Allocation Formulae

Water & Environment Conditional Grants						
Variables	Water & Sanitation NWR		Natural Resources NWR		Development Grant	
	2018/18 & 19/20	2020/21	2018/18 & 19/20	2020/21	2018/18 & 19/20	2020/21
Pop. in Hard to Reach Hard to Stay Areas	3%	3%	2%	2%		
Fixed Allocation	82%	43%			30%	20%
Land Area	10%	10%		10%		5%
Rural Population	5%	44%	83%	63%		35%
Wetland Area			5%	15%		
Poverty Headcount Ratio			10%	10%		15%
Cost of Providing Water Per Capita (est.)					5%	
Rural Served Population					20%	
Rural Unserved Pop. for SCs < National target (i.e. 77%)					45%	25%

¹⁴ The standard deviation of the health sector performance measures decreased from 16.14 to 14.9 between the 2018/19 and 2019/20 evaluations.

Substantial changes were made to the three formulae used in the water and environment sector in FY 2020/21 as part of the expansion of the scope of the UglFT Programme to this sector (see table 10). These modifications significantly increased the equity of the allocation of both non-wage recurrent and development funds (in particular the lower weight assigned to fixed allocations). Overall, the ratio between the per capita allocation of non-wage recurrent and development funds to the 20 least funded Local Governments over the national average increased by 16 and 6 % between 2018/19 and 2020/21, respectively. In addition, the ratios between highest and least funded local governments in per capita terms also decreased considerably for both grants.

Table 13: Equity of Water & Environment Conditional Grants, 2018/19-2020/21

Equity - Water & Environment Grants	Non-Wage Recurrent			Development			Note
	18/19	19/20	20/21	18/19	19/20	20/21	
Average Transfer per capita	157	155	357	1,436	1,417	2,116	
20 least funded LGs/ Average Transfer per capita	58%	59%	75%	65%	63%	69%	Higher better
Max/Min Ratio	15	19	12	11	10	8	Lower Better

iv). Discretionary Development and Equalization Grant (DDEG)

The allocation of DDEG funds is based on two allocation formulae which have remained unchanged over the past three financial years (see table 12). These two formulae apply across all the DDEG windows, one for District (Rural) funding, and one for Urban funding. In addition, the allocation is influenced by the performance of each local government in the cross-sectoral indicators of the annual performance assessment (as of FY 2019/20) to incentivize efficiency in line with the other key sectors.

Table 14: DDEG Grant Allocation Formulae

DDEG Grant		
Variables	District: USMID/LRDP/PRDP/LGG	Urban: USMID/Non-USMID
	2018/19, 19/20 & 20/21	2018/19, 19/20 & 20/21
Conflict Index	5%	3%
Fixed Allocation	25%	20%
Poverty Headcount Ratio	40%	62%
Rural Population	30%	15%

Nevertheless, the main issue from an equity perspective is the pronounced disparities in the level of funding across DDEG windows, in particular between urban and rural local governments (see table 13). These vertical imbalances are reflected in the evolution of the equity indicators for DDEG as a whole.

Over 2018/19-2020/21, the ratio between the best and least funded local governments in per capita terms nearly doubled while the ratio of the per capita allocation to the 20 least funded local governments over the national average more than halved.

Table 15: Equity of the DDEG Grant, 2018/19-2020/21

Equity - DDEG Grant		2018/19*	2019/20	2020/21	Note	
DDEG – Aggregate		Average Transfer per capita	6,271	10,856	13,902	
		20 least funded LGs/ Average Transfer per capita	17%	10%	8%	Higher better
		Max/Min Ratio	184	397	302	Lower Better
District	PRDP	Average Transfer per capita	6,791	6,600	6,387	
		Max/Min Ratio	6	5	3	Lower Better
	LRDP	Average Transfer per capita	2,248	2,215	2,154	
		Max/Min Ratio	3	4	4	Lower Better
	LGG	Average Transfer per capita	1,354	1,369	1,350	
		Max/Min Ratio	4	3	2	Lower Better
	Refugee Hosting (USMID)	Average Transfer per capita	N/A	15,970	22,566	
		Max/Min Ratio	N/A	7	4	Lower Better
	Urban	USMID	Average Transfer per capita	82,783	122,444	176,462
Max/Min Ratio			4	3	4	Lower Better
Non – USMID		Average Transfer per capita	2,665	2,385	2,837	
		Max/Min Ratio	14	3	3	Lower Better
Average Urban USMID pc/Average District LGG pc		61	89	131	Lower Better	

Note: *Including USMID funding allocated via the supplementary budget.

As discussed in section 4.1 the main contributor to the imbalance in per capita allocations is the USMID program. The average per capita allocation for urban local governments under USMID was 61 times higher than the average allocation under the least funded DDEG window (i.e. LGG) in 2018/19. By FY 2020/21, this ratio had increased to 131 as a result of the expansion of the USMID program. Notwithstanding, budget support provided by the EU over FYs 2021/22 and 2022/23 will seek to reduce these inequities by targeting the least funded windows of the DDEG grant as mentioned in section 3.2.2.

v). Inclusion of Refugee Communities in Population-Related Variables

A key intervention that had a significant impact on the equity of allocations to social service delivery was the inclusion of refugee populations in the allocation formulae of the education, health and water and environment conditional grant allocations in FY 2020/21. This intervention seeks to alleviate the additional pressure put on service delivery across the 12 refugee-hosting districts resulting from the surge in the inflow of refugees from South Sudan in 2016 and the DRC in 2018. The inclusion of refugee communities in the population-related variables was translated in a better alignment between the financial allocations and the needs of these local governments.

The impact of the inclusion of refugee communities in population-related variables is shown in table 14. Overall, the refugee population corresponds to 3% of the total population of Uganda exclusive of Greater Kampala (which is not part of the Local Government system). Nonetheless, in certain districts, it implied a dramatic population increase and a significant amount of additional funding as a result (e.g. Obongi and Adjumani).

Table 16: Host & Refugee Population across the 12 Refugee-Hosting Districts

Vote Name	FY 2020/21		
	Host Population	Refugee Population	Refugee/Host Population
Adjumani District	237,400	210,904	89%
Arua District	160,300	63,929	40%
Kamwenge District	347,400	71,170	20%
Kanungu District	281,400	1,599	1%
Kisoro District	303,000	1,412	0.5%
Yumbe District	699,300	231,065	33%
Isingiro District	541,600	130,462	24%
Koboko District	200,700	5,380	3%
Kyegegwa District	446,100	118,876	27%
Lamwo District	145,400	52,079	36%
Kiryandongo District	305,300	64,229	21%
Kikuube District	376,600	116,915	31%
Obongi District	50,300	121,890	242%
Madi-Okollo	168,300	114,681	68%
All LGs	41,056,100	1,304,591	3%

5.1. Objective/Target for Improving Effectiveness and Efficiency of LG Spending and Service Delivery

The IGFTTRP seeks to improve the effectiveness and efficiency of LG spending and service delivery through two complementary interventions: i) an annual Local Government Performance Assessment (LGPA) whose results are linked to the size of Development Grant Allocations (i.e. Education, Health, Water & Environment, and DDEG) to incentivize better performance, and ii) Performance Improvement Plans (PIPs) designed and implemented on yearly basis with the support of central MDAs for the worst-performing LGs and thematic areas.

This section describes the implementation and results of the last 3 LGPAs and PIPs (2017, 2018, and 2019).

5.2. Assessing Progress towards Improving Effectiveness and Efficiency of LG Spending and Service Delivery

5.2.1. The Local Government Processes and Results

The overall objective of the Local Government Performance Assessment (LGPA) system is to promote effective behaviour, systems and procedures to improve LG's administration and service delivery. The specific objectives of the system include:

- a) Provide incentives and promote good practice in administration, resource management, accountability and service delivery through rewarding and sanctioning good and bad practices respectively;
- b) Contribute to the identification of LG functional capacity gaps and needs to serve as a major input in the performance improvement (institutional development/strengthening) plans and strategies by the LGs as well as Ministries, Departments and Agencies.
- c) Contribute to the general LG Monitoring and Evaluation (M&E) system by providing (i) Information to LGs for use in making management decisions that are intended to enhance their performance; and (ii) inputs to other M&E and assessment systems such as the Government Annual Performance Report (GAPR) and various sector/subject-specific assessments and M&E systems.

During the period September – December 2019, the Local Government Performance Assessment (LGPA) for 2019 was conducted. The 2019 LGPA is the third edition of the assessment under the new framework of the Inter-Governmental Fiscal Transfer Reforms (IGFTR) introduced by the Government to ensure the efficiency of Local Government financing.

The 2019 assessment focused on two (2) dimensions of; (i) compliance with the accountability requirements and dimension ii) functional processes and systems of importance to LGs for efficiency in service delivery, addressing four assessments: a) cross-cutting issues, b) Education, c) Health and d) Water processes and systems.

Table 17: Number of LGs assessed across the 3 LGPAs

	Assessment	LGPA 2017	LGPA 2018	LGPA 2019
No. of LGs Assessed	DLGs	115	121	127
	MLGs	23	23	19
	Total LGs	138	144	146

The assessment for 2019 was conducted in 146 of the 175 LG Votes (District and Municipal Local Governments), of which 127 are DLGs and 19 are MLGs that were operational as of July 2019. In addition to this, 22 MLGs were assessed under the Uganda Support to Municipal Infrastructure Development (USMID) program in the areas of Education and Health, which results are presented in a separate report (due to varying timing of the assessments).

The LGPA process has been carefully designed and rigorously implemented in a clear and sequenced manner to ensure credible assessment results. The process is guided by the LGPA Manual that was updated in 2018, in close consultations with a wide range of stakeholders from central and lower level Government as well as previous assessors. The printed version of the LGPAM 2018 was disseminated to LGs, and logins were provided to enable them to access the Online Performance Management System (OPAMS) where the manual and the reports are always uploaded for easy access. The assessment is coordinated by the Office of the Prime Minister (OPM), the chair for the Local Government Performance Assessment Taskforce (LGPAT).

To ensure neutrality and quality of the process, the LGPA is contracted out to private firms, which are trained on key areas such as; background and objectives of the LG performance assessment system; interpretation of the LGPA indicators in the LGPAM, assessment procedures, as well as procedures for compiling the LG specific reports including use of the OPAMS for data reporting and analysis.

For quality assurance of the exercise and the results, a private firm is contracted to; i) verify and confirm the assessment of sampled LGs following the performance indicators in the manual. ii) assess the degree of adherence to the LG performance assessment manual (2018) by the LG PA teams; and iii) raise inconsistency issues in the implementation of the LG PA with the assessment team, quality assurance team and OPM, to address the gaps and secure the quality and validity of the results.

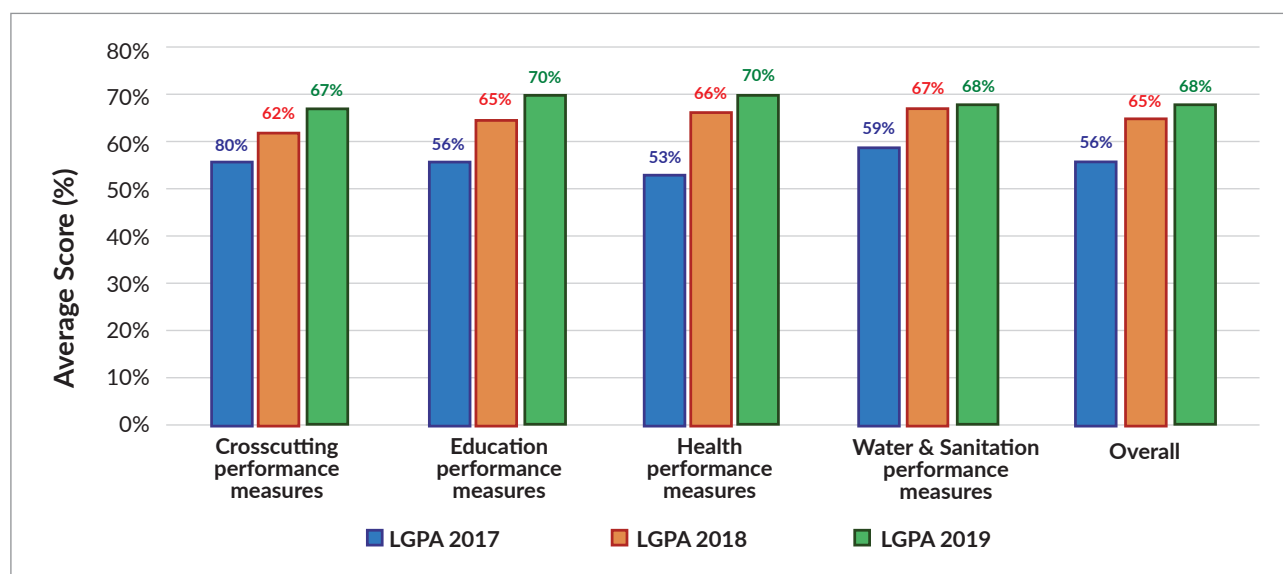
The results of the assessments have important implications which include;

- a) **Informing the appointment of LG Accounting Officers:** Compliance to accountability requirements will be a major input into the appointment of Accounting Officers for FY2020/21.

- b) **The allocation of part of the development grants:** The results of the LGPA will be used during the allocation of development grants for FY 2020/21 for Health, Water, Education and DDEG.
- c) **Informing the development of Performance Improvement Plans:** Performance Improvement Plans (PIPs) shall be developed to support the worst-performing LGs, and will incorporate the LGPA 2019 results as soon as they are disseminated. The PIPs will provide a comprehensive set of actions to address the identified gaps, and support the LGs to prepare for the forthcoming LGPA exercises.
- d) **Informing the Government Annual Performance Report (GAPR):** The results of the LGPA will be captured in the GAPR for FY 2019/20 to be discussed by the Cabinet. Issues requiring policy actions will be established and discussed with the concerned MDAs and LGs representatives.
- e) **Dissemination of the LGPA results to LGs: A national stakeholders' workshop** will be held to (i) disseminate the LGPA results; (ii) announce the process, timelines, as well as the implications for the forthcoming LGPA exercise; (iii), announce measures for supporting performance improvement of LGs, and (iv) update the LGs on the new assessment requirements in the revised manual. The LGPA report will be published on the OPM website as well as on OPAMS.

The overall performance for all LGs assessed in 2019 across the four dimensions of performance measures improved to 68%, compared to 65% and 56% in 2018 and 2017 assessments respectively. Crosscutting performance measures improved from 56% in 2017 to 67% in 2019, while Education measures improved from 56% to 70%, Health from 53% to 70% and Water from 56% to 68% respectively over the same period. Significant improvement has notably been recorded in Health and Education performance measures.

Figure 8: Average LG Performance, LGPAs 2017-19



The majority of the LGs were in the scoring range of 50%-80% of the maximum obtainable points. The overall best performers include; Kiruhura district scoring 91%, followed by Bugiri district (90%), Ibanda district (89%), Masindi Municipal Council, Kumi, Katakwi and Ntungamo districts each scoring 88%.

The worst performers on the other hand were; Kikuube district (44%), Kaabong district (46%); while Arua and Pakwach districts each scored 47%.¹⁵ The comparison across the areas of assessment for performance measures shows that LGs have improved tremendously over the last three years. Although there are still several operational and implementation challenges among LGs, the performance trend can continue to improve with support from all stakeholders. All LGs that were supported through the performance improvement plan initiated by the Ministry of Local Government has also continued to perform fairly well.

Table 16 below shows the top 10 and the bottom 10 performing LGs in the 2019 LGPA, including their ranks and scores.

Table 18: Overall Best & Worst 10 Local Governments in 2019 Assessment

Top 10 Performers			Bottom 10 Performers		
Rank 2019	Score 2019	Vote	Rank 2019	Score 2019	Vote
1	91	Kiruhura District	136	53	Kyenjojo District
2	90	Bugiri District	138	52	Bukwo District
3	89	Ibanda District	138	52	Apac District
4	88	Masindi MC	140	51	Maracha District
5	88	Kumi District	140	51	Abim District
6	88	Katakwi District	140	51	Namisindwa District
7	88	Ntungamo District	143	47	Pakwach District
8	87	Ngora District	143	47	Arua District
9	86	Sheema MC	145	46	Kaabong District
10	85	Wakiso District	146	44	Kikuube District

Relatedly, it should be noted that a commendable increment in scores was registered by the top 10 improved LGs' from the previous year's performance. Rubanda district had the highest improvement in percentage points (47) followed by Katakwi with a 25 percentage point increase in its score. This improvement is on account of the Performance Improvement Programme these LGs were subjected to.

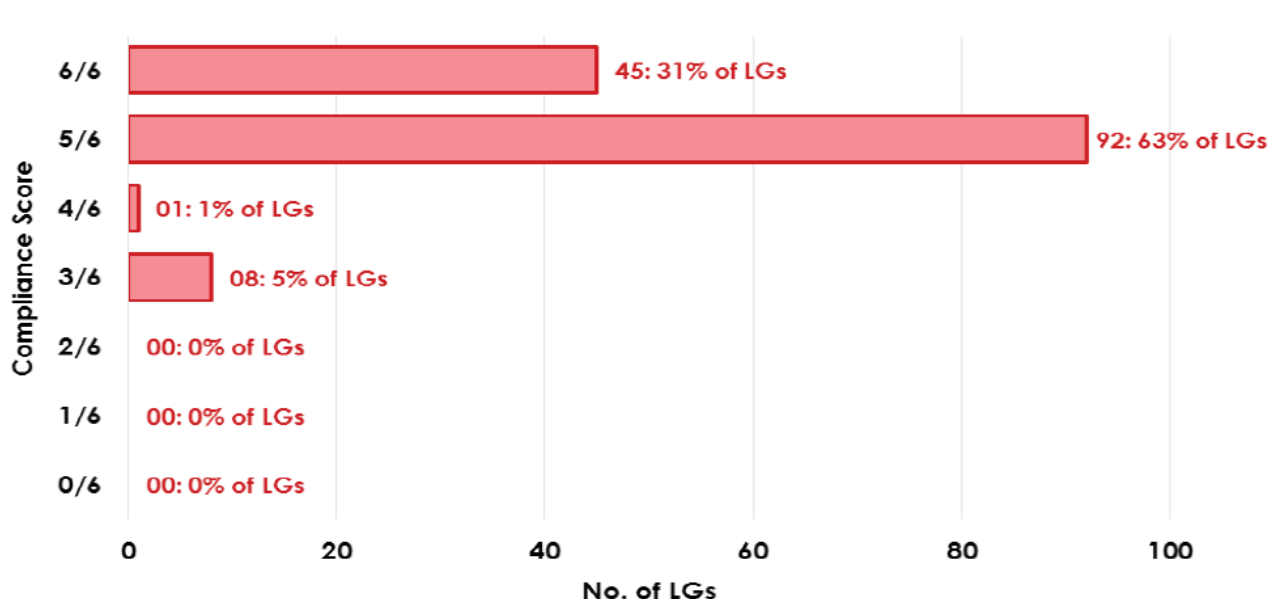
To ensure that LGs have basic safeguards for proper management of resources in place, six accountability requirements related to submission of Annual Performance Contract on time, Procurement Plan on time, Annual Budget Performance Report on time, Quarterly Budget Performance Reports on time, Follow-up on Audit Reports on time and Status of the Audit opinion were assessed. The 2019 assessment generally showed tremendous improvement in compliance to all accountability requirements for both DLGs and MLGs compared to LGPA 2018. Specifically, 45 out of 146 (31%) LGs complied with all the 6 requirements, while 92 out of 146 (63%) LGs complied with 5 out of 6 accountability requirements.

While most accountability requirements showed a great improvement, timely submission of information to the PS/ST on the status of implementation of Internal Auditor General and the Auditor General's findings for the previous financial year remains a challenge for most

¹⁵ The LGPA 2019 National Synthesis Report is available on www.budget.go.ug/lgpas and includes more details on the findings from the LGPA exercise.

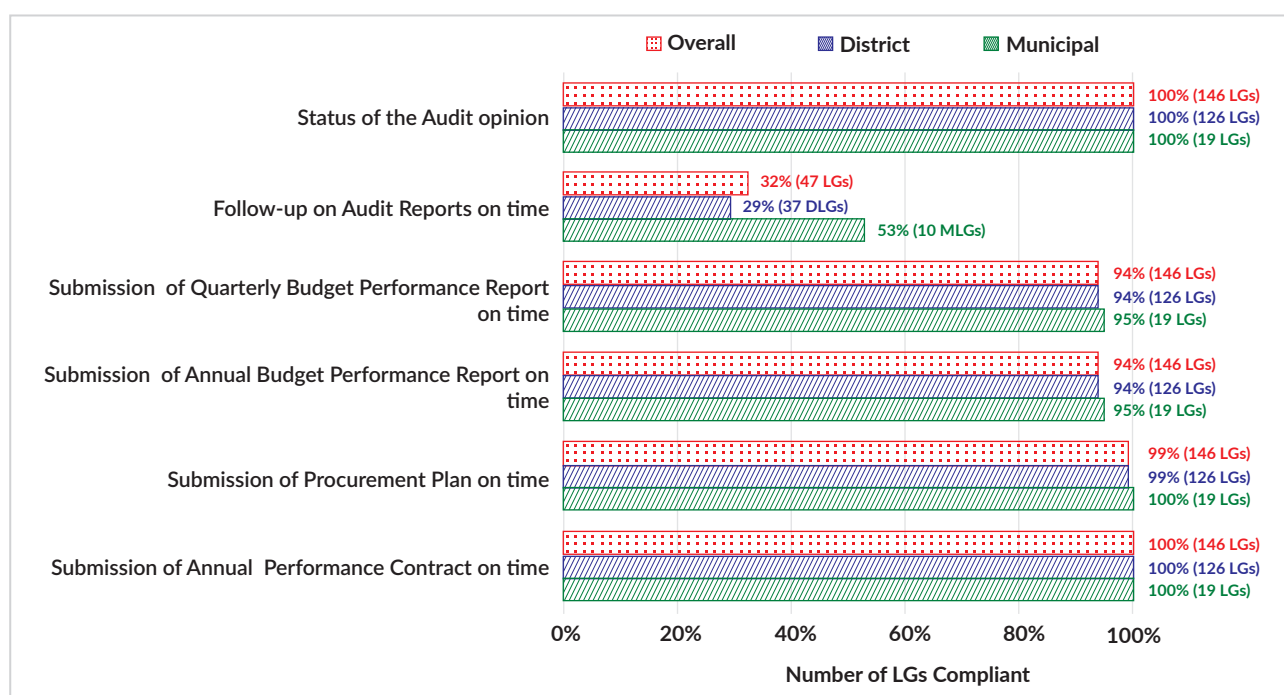
LGs. Only 47 LGs out of 146 were compliant.

Figure 9: Compliance of all LGs to Accountability Requirements



Note: Number of LGs Assessed = 146

Figure 10: Status of Compliance with Six Accountability Requirements by LGs



As described in section 6.2.1 the LGPA results from the FY19/20 LGPA exercise was used for several purposes, including Informing the appointment of LG Accounting Officers, the allocation of part of the development grants, informing the development of Performance Improvement Plans, informing the Government Annual Performance Report (GAPR), and dissemination of the LGPA results to LGs. The FY19/20 LGPA results were used to inform the allocations of the DDEG grants in addition to the health, education and water & environment development grants.

The next LGPA, for FY 2020/21 will see major revisions to the LGPA manual, including revisions to the assessment criteria, an expansion to the micro-scale irrigation sector,

and the assessment of minimum conditions (MCs). The FY 2-20/21 LGPA will also include assessments of newly created LGs. In addition, work is ongoing to expand the LGPA system to include other dimensions, including assessing lower local governments and service delivery units (schools and health facilities).

5.2.2 Performance Improvement Planning and Implementation

i). PIPs for Poorly Performing LGs

To ensure that public resources for service delivery are efficiently used and properly accounted for, the Government designed a system for assessing the performance of Local Governments. The Office of the Prime Minister spearheads LGPA whereas the Ministry of Local Government (MoLG) is responsible for Performance Improvement Planning and Support for the poor performing LGs and also for the Thematic Performance Improvement Support for all LGs in areas of under performance. This support given is based on (i) The Annual Local Government Performance Assessment Report; (ii) Value for Money Audit Reports; (iii) Technical Infrastructure Audit Reports; (iv) Monitoring and Inspection Reports; (v) PIP Implementation and Follow Up Reports.

The first objectives of the Local Government performance improvement support were to provide targeted performance improvement support to the most under performing LGs (as measured in the LGPA). Under the Uganda Intergovernmental Fiscal Transfer Programme for Results (IGFTRP), the specific annual targets defined and agreed upon between the GoU and WB¹⁶ as part of the UglIFT programme Disbursement Linked Indicators (DLIs¹⁷) were: (i) in FY 2017/18, performance improvement plans would be prepared for and agreed with at least 5 LGs; and (ii) in FYs 2018/19 and 2019/20, performance improvement plans would be prepared for and agreed with at least 20 LGs annually.

The second objective of the Local Government performance improvement support was to provide thematic support to all LGs within the specific themes that all or most LGs underperform (as measured primarily by the LGPA). Under the Uganda Intergovernmental Fiscal Transfer Programme for Results, the specific annual targets defined and agreed upon between the GoU and WB¹⁸ as part of the UglIFT Programme Disbursement Linked Indicators (DLIs¹⁹) were: (i) in FY 2017/18, a Performance Improvement Plan (PIP) would be developed and implemented in at least 1 thematic area of underperformance; and (ii) in FYs 2018/19 and 2019/20, PIPs would be developed and implemented in at least 2 thematic areas of underperformance annually.

In this case, the Ministry of Local Government (MoLG) was assigned the responsibility of coordinating performance improvement support.

MoLG constituted a multi-sectoral Local Government Performance Improvement Task Force (LGPIP TF) to coordinate the process of providing performance improvement support to Local Governments. The LGPIP TF comprised representatives from Office of the Prime Minister (OPM); Local Government Finance Commission (LGFC); Ministries of Finance, Planning and Economic Development; Public Service; Education and Sports; Health; Water

¹⁶ Refer to Uganda Intergovernmental Fiscal Transfers Program (UglIFT), Program Operations Manual (POM), Volume 1.

¹⁷ The Disbursement Linked indicators (DLIs) are the specific results/targets which GoU have to achieve within a specified period of time in order for the World Bank to release yearly allocations of funds to the Government of Uganda.

¹⁸ Refer to Uganda Intergovernmental Fiscal Transfers Program (UglIFT), Program Operations Manual (POM), Volume 1.

¹⁹ The Disbursement Linked indicators (DLIs) are the specific results/targets which GoU have to achieve within a specified period of time in order for the World Bank to release yearly allocations of funds to the Government of Uganda.

and Environment; Lands, Housing and Urban Development; representation from Uganda Local Government Association (ULGA) and Urban Authorities Association of Uganda (UAAU); representatives from other MDAs, Development Partners' (DP) programmes and NGOs (co-opted depending on the subject discussed).

The MoLG also re-constituted the NRP²⁰ with representatives from the crosscutting specialized Ministries that have the professional capacity to offer support to core functions of the LG, such as Ministries of Finance, Planning and Economic Development and Public Service, as well as representatives from the Ministries of Health, Education and Sports and; Water and Environment. The main responsibilities of the NRP were, to among others, analyse the LGPA synthesis report to identify common areas of under-performance across all LGs in the country, analyse individual LG performance reports as well as provide support to the lowest performing LGs to develop and implement their respective customized PIPs. The LG PIP Taskforce reviewed the results of the LGPA exercise conducted from October 2018 to February 2019 and identified: 24 LGs that had scored below 60% (PIP report quotes 58% and below) in the combined score and 36 LGs that had scored below 60% in any of the four areas of the assessment. In total 60 LGs were supported to develop PIPs.

The PIP process commenced upon the release of the LGPAR by OPM in February 2019 and thereafter MoH coordinated the Analysis, nomination of Taskforce Members and provided terms of reference for the taskforce and /or short-term Technical Assistance to support the performance analysis process. This was followed by data collection and analysis (January – March 2019); the development of modules which were later reviewed by the National Resource Pool and further approved by the Fiscal Decentralization (FD) – Technical Committee approved the modules.

This Performance Improvement Plan was developed in June 2020 as a concerted effort and participatory approach between the Ministry of Local Government the targeted Local Governments specifically members of DEC/MEC and TPC members in each LG). The detailed PIPs for each of the twenty-four (24) LGs are available at the Ministry and respective PIPs shared with LGs. The development of the above Performance Improvement Plans was based on the following:

- i. Analysis of the detailed Performance Assessment Reports for each of the LGs;
- ii. Discussions with technical staff and political leadership (DEC) of the respective LGs for identification of underlying causes of underperformance in the LG;
- iii. Joint development of proposed actions to be undertaken by each of the LGs and proposed actions to be undertaken by Ministries, Departments and Agencies (MDAs); and
- iv. Signing off the agreed Performance Improvement Plans by the CAO/TC, District Chairperson/Mayor and Team Leaders of the respective NRP Team.

The Performance Improvement Plans were then endorsed by the Chief Administrative Officers and District Chairpersons on behalf of the Local Governments as a confirmation of commitment to implement the agreed actions. The Head of the National Resource Pool

²⁰ The formation of the National Resource Pool was first provided for in the National LG Capacity Building Policy of 2005 by Ministry of Local Government as one of the providers/implementers of capacity building activities at the LG level. However, like other elements of the policy, the functionality of the NRP had seized by the time the PIPs started to be developed.

(NRP) team endorsed the PIPs on behalf of the Line Ministry.

The same procedure was undertaken for the cross-cutting LG Specific Performance Improvement.

The impact of the PIP support on performance in FY 2019/20 will be established when the LG PA results of the exercise conducted from October 2020 to January 2021 are released.

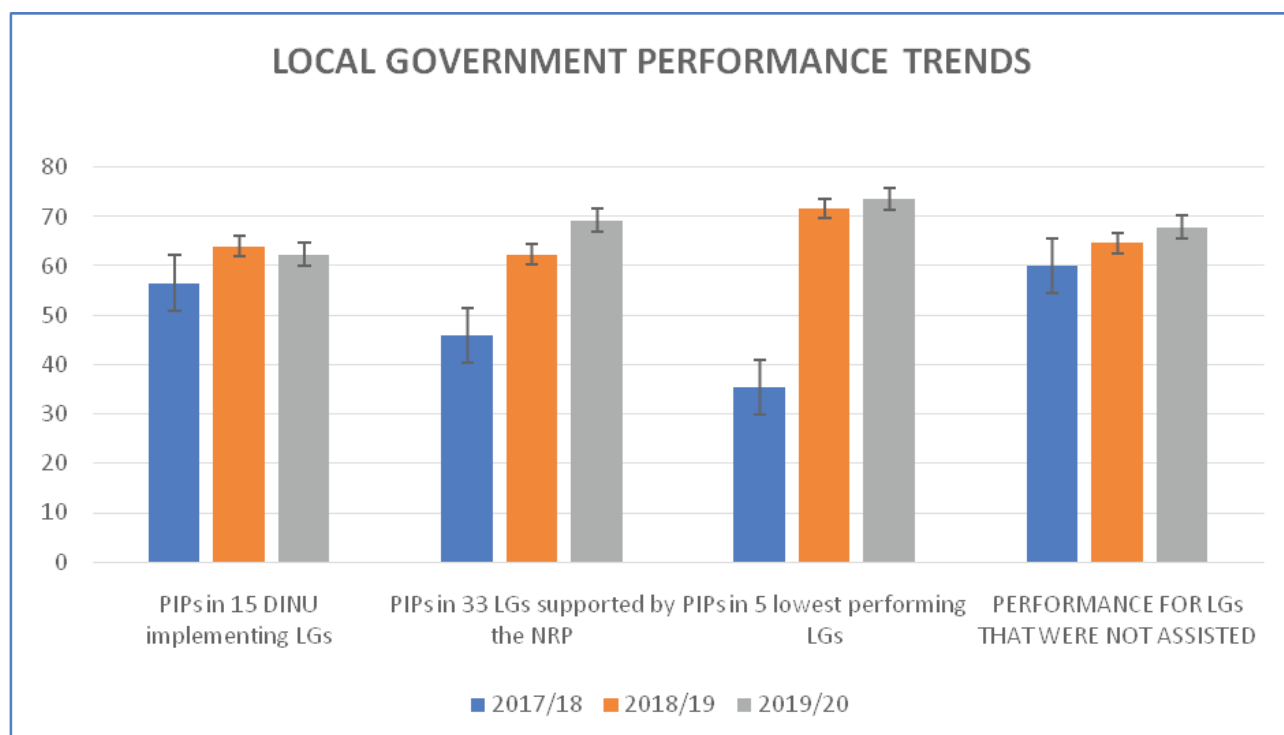
The foregoing notwithstanding, based on the previous PIP support experience in FY 2017/18 and 2018/19, the relative effectiveness of performance improvement support to the lowest-performing LGs differs significantly, depending on the nature of support. For example:

- a) The average combined score of the 5 LGs that were supported to develop PIPs in Teso region by NRP with support from ODI-BSI increased from 35% in 2017/18 to 74% in 2019/20 an average improvement of 39 points within the first three years of LGPA.
- b) The average combined score of the 33 LGs that were supported to develop PIPs by NRP increased from 46% in 2017/18 to 69% in 2019/20 an average improvement of 23 points within the first three years of LGPA; and
- c) The average combined score of the 15 LGs that were supported to develop PIPs by DINU increased from 57% in 2017/18 to 62% in 2019/20 thus an average improvement of 5 points within the first three years of LGPA. These LGs performed on average even below the non-supported LGs.

It should, however, be noted that even the average combined score of the LGs that were not supported to develop PIPs increased from 60% in 2017/18 to 68% in 2019/20, thus an average improvement of 8 points within the first three years of LGPA. Most of the LGs in each group saw consistent changes in their performance as demonstrated in the figure below. The performance improvement can be explained by the incentives of the LGPA itself as well as common PIP activities like the issuance of the administrative circular issued by MOFPED in addition to the targeted performance improvement support.

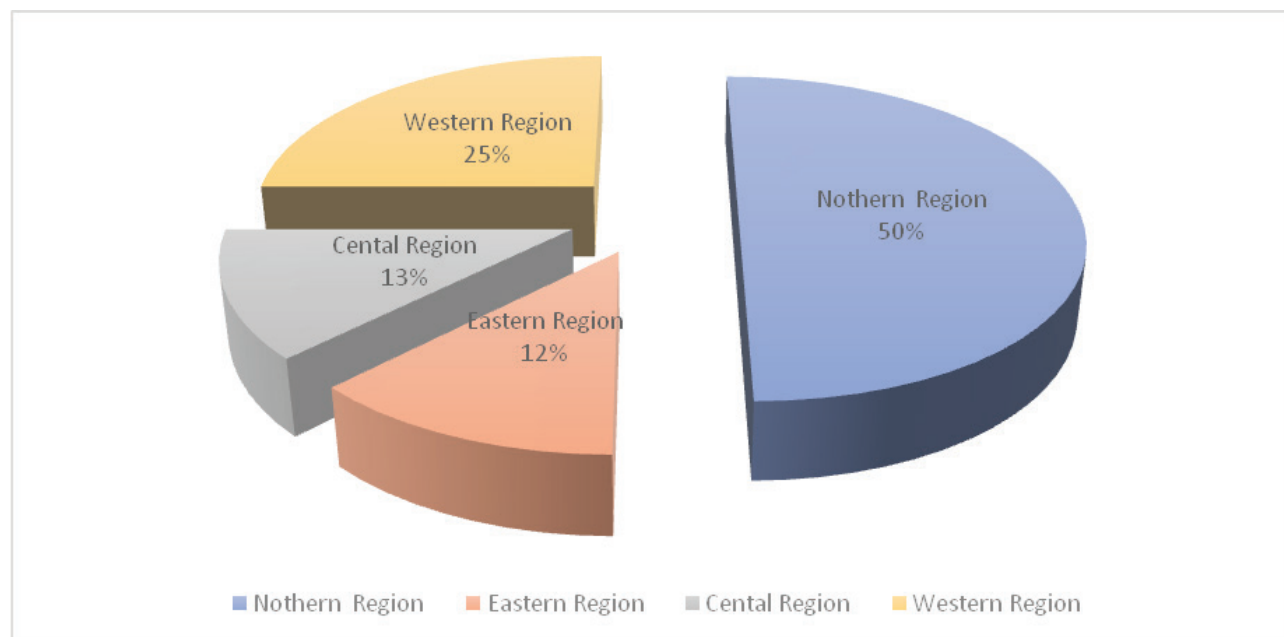
The graph below shows the change in the annual average score of LGs, grouped according to the type of performance support they received. The graph also indicates the range of LG scores around the average in each group.

Figure 11: The annual average score of LGs, grouped by type of performance support received



Arising out of the performance assessment results for 2019/2020, the Ministry embarked on a Performance Improvement Planning and Support programme to offer support to the twenty-four (24) poor-performing LGs²¹ that scored 58% and below.

Figure 12: Distribution of weak performing LGs by Region



²¹ Masindi DLG, Moroto DLG, Hoima DLG, Lyantonde DLG, Buhweju DLG, Kyotera DLG, Yumbe DLG, Kassanda DLG, Amolatar DLG, Amudat DLG, Oyam DLG, Kwana DLG, Ntoroko DLG, Bugweri DLG, Kyenjojo DLG, Bukwo DLG, Apac DLG, Abim DLG, Maracha DLG, Namisindwa DLG, Arua DLG, Pakwach DLG, Kaabong DLG and Kikuube DLG.

The objective of the PIP exercise was to jointly work with the district stakeholders to establish and appreciate the root cause(s) of the corresponding poor performance and jointly agree on the actions to be implemented to prevent a re-occurrence of the poor performance levels in the subsequent rounds of LGPA.

b) Thematic Performance Improvement Plans

In January 2020, the LGPIP TF identified common gaps in performance across LGs by analyzing: (i) the performance gaps from the second and third LG performance assessments conducted in October – December 2018 and October – December 2019 respectively; (ii) the UglIFT implementation support mission findings and recommendations and; (iii) the baseline value for money audit conducted by the Office of the Auditor-General. It was then decided to develop thematic PIPs to address performance gaps within two thematic areas: (i) Strengthening Oversight and Monitoring of Construction sites and (ii) Strengthening Implementation of Environment and Social Requirements/safeguards.

An integrated PIP covering both these issues was developed in February 2020 involving the following steps:

Team composition and orientation – 12 teams comprising of MoLG, MoWT, MoPS, PPDA, NEMA, MoGLSD, MoES, MoH, MoWE, MAAIF and ODI-BSI were constituted in January 2020 to support 8-10 LGs each on the development of thematic PIPs to address contract management and safeguard issues in the entire country. MoLG oriented the teams on the approach for the development of thematic PIPs.

Refinement of the approach and preparation of materials – MoLG, with ODI-BSI support, developed the Thematic Performance Improvement Plan for improved contract management; and social and environmental management. It was agreed that the Thematic PIP support be implemented through a combination of three mutually reinforcing strategies, namely; i) Local Government Performance Improvement Clinics – whereby LGs will be supported to address the identified gaps; ii) oversight and monitoring of construction sites – for following up issues of construction management as well as environmental and social safeguards; and iii) Issuance of an administrative circular to LGs highlighting issues where LGs are required to take action on their own. Respective Ministries, Departments and Agencies (MDAs) developed materials (PowerPoint presentations) that were used in the exercise.

Fieldwork preparations: MoLG convened a pre-field preparatory meeting where the materials to be used were discussed and cleared by the LG Performance Improvement Task Force. In addition, team composition and other logistical arrangements were also discussed and resolved. MoWT received the most recent monthly monitoring reports from MoH and MoES and used them as a basis for developing the joint monitoring checklists. With ODI-BSI support, the checklist was programmed on the Online Transfer Information Management System (OTIMS) to ease and standardise reporting and analysis.

The Thematic PIP was implemented from March 16 to April 09 2020²², following a 2-day model entailing the following steps:

On the first day, team members visited each Local Government and: (i) held an entry meeting with the Local Government political leadership and CAO/TC and the respective

²² Despite the COVID lockdown, the teams which were already in the field continued with the exercise.

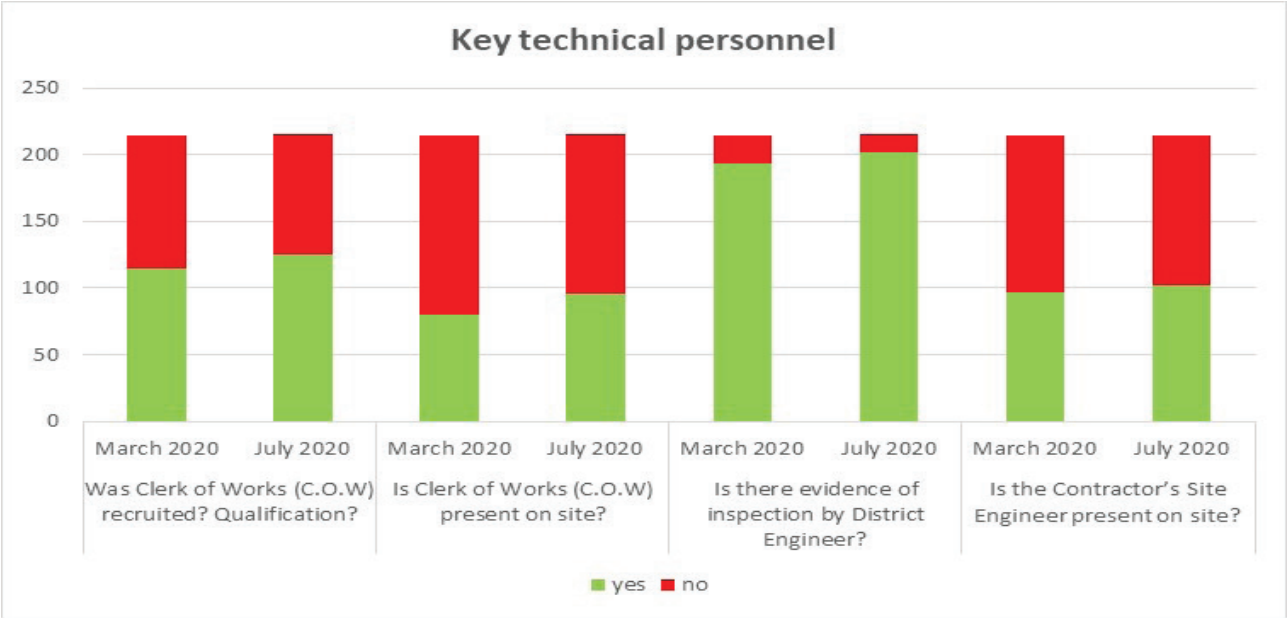
Heads of Departments to discuss the background, objectives and approach of the support; ii) conducted the first joint quarterly meeting of construction sites²³, and iii) discerned issues from the field visits for raising with LGs on the second day.

On the second day, the team members held a meeting with a cluster of 4 (four) LGs and made presentations on the following topics: i) update on IGFTRs and UglFT; ii) contract management requirements; iii) environmental safeguards requirements iv) social, safety and health safeguards requirements. In addition, presentations were made on DDEG, education and health sector guidelines (not linked to construction management and safeguards). At the end of the cluster workshops, each LG developed and presented short-term LG specific Action Plans to address identified issues actions signing off.

Regarding Thematic PIP Reporting, ODI-BSI supported the development of an online monitoring system as part of OPAMs, where the joint monitoring teams uploaded reports including photos to demonstrate construction progress, as well as the action plans that would be used to take corrective actions. Reporting for the joint monitoring exercise conducted on day one was done online using OTIMS to standardize reporting and ease analysis. A Synthesis Report was written and discussed by the IGFT- Technical Committee. Detailed facility-specific reports including the respective Action Plans and photos indicating construction progress as well as the Synthesis Report can be accessed online at <https://budget.go.ug/sitereports>.

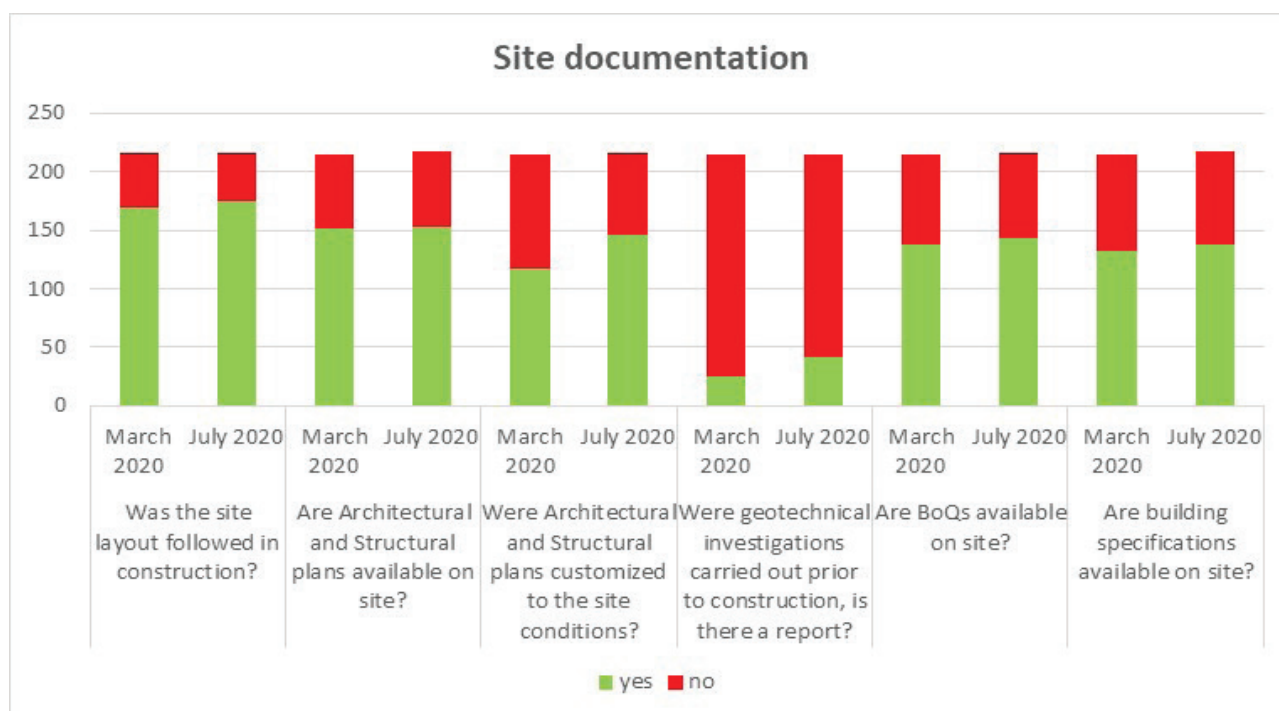
Whilst awaiting the results of the LG PA exercise conducted in 2020, anecdotal evidence from the joint monitoring/thematic PIP support undertaken between March 2020 and July 2020 showed improvement in the performance of LGs on some of the themes related to the management of contracts as depicted in the charts below.

Figure 13: Joint Monitoring Data on Key Technical Personnel



23 107 out of 129 health centres and 111 out of 118 seed secondary schools across the country were monitored.

Figure 14: Joint Monitoring Data on Site Documentation



Lessons Learned

- a) A key lesson from the first rounds of PIP support to underperforming LGs is that: the support requires (i) thorough preparation before visiting LGs (prior review and analysis of the synthesis report and each of the LG PA reports; preparation of relevant materials, team selection, etc); and (ii) several rounds of follow up support to the LGs. The assignment is work-intensive both in the field and for subsequent analysis and documentation. Experience to date suggests that MOLG requires some continuous dedicated TA or consultancy support to manage all the tasks in a timely and qualitative manner.
- b) The PIP support is a more complex and less structured process. Regular follow-up by the LGPIP TF and reporting by the LGs is critical in tracking the progress of PIP implementation. This is a demanding exercise that can prove difficult for the assigned public servants to undertake while also undertaking their regular office duties.
- c) The multi-sectoral composition of the NRP representatives is critical in developing and supporting LGPIPs – individual members need to have the prerequisite professional capacities. Similarly, the dedication and commitment of each NRP member to the LG PIP development exercise is critical for effective execution and achievement of positive results
- d) Delay to develop and implement PIPs compromises effectiveness. The delay to officially release the assessment results coupled with the delay in the release of funds meant that the PIPs were developed and implemented long after the gaps were identified and very close to the next LG PA exercise compromising effectiveness.

Way forward

The basic PIP model with emphasis on performance improvement support to poorly performing LGs and supply-driven thematic PIPs for specific themes has overall proved to be valuable.

- Planning and implementation of performance improvement support;
 - o Timing: The LG PIP exercise will be carried out immediately after the release of the LGPA Results for the PIPs to impact on the performance of a particular LG during the subsequent assessment;
 - o Approach:
 - Providers:
- To continue the use of NRP but ensure that NRP team is dedicated, available, motivated and sufficiently oriented and well prepared.
- Consider the use of short-term consultants to augment the NRP during fieldwork, reporting and documentation – e.g. one short term consultant per NRP team.
 - o Reporting:
 - Develop an online excel based tool to ease and standardise reporting.
- Specific issues for Planning and implementation of improvement support to underperforming LGs.
 - o Focus on a manageable number of underperforming LGs as specified in the DLIs – better to do few LGs well than to try to cover many superficially.
 - o The support to underperforming LGs requires:
 - Initial support for the development of locally owned PIPs with thorough prior preparations (analysis of LGPA results, preparation of materials, team selection and orientation of all team members),
 - Subsequent and immediate support from the mandated MDAs through several follow up visits with relevant specialists that have been properly oriented.
- Specific issues for Planning and implementation of thematic performance improvement support: The LGPIP taskforce will continue with the coordination of the development of thematic PIPs. However, the development and implementation of the specific PIPs will be the responsibility of the MDA with the policy mandate for that function.
- Coordination of performance improvement support: The overall cross-ministerial coordination via the LGPIP Task Force requires some additional strengthening by the provision of short-term TA to ensure more frequent, timely and effective communication and documentation.

- Monitoring and quality assurance
 - o The agreed reporting on PIP activities will be undertaken on time. Sanctions will be imposed on NRP team members that delay or fail to report. This may for instance include naming and shaming and/or blacklisting non-compliant members from participating in future PIP activities.
 - o Monitoring:
 - LGs must report on the PIP activities they have implemented, the outputs and outcomes. A specific format will be developed.
 - Monitoring the outcomes of performance improvement support will be the responsibility of the LGPIP Task Force. This will inter alia be reflected in the development of the annual PIP report.

6.0. NEXT STEPS IN THE IGFTRP

6.1 Revised Intergovernmental Fiscal Transfer Reform Programme (IGFTRP)

The IGFTRP was initially designed in 2017 and has been revised in 2020. The revised Reform Program is aligned with the Third National Development Plan (NDP-III) 2020/21 to 2024/25, contributing to the Public Sector Transformation Development Programme and its objective to “deepen decentralization and citizen participation in local development”.

The IGFTRP (2020) is now focused on four main objectives outlined below:

- Improve the adequacy, equity and increase discretion in the financing of local service delivery;
 - o Adequacy: To restore adequacy in financing of service delivery, the Government of Uganda has developed a plan to gradually uplift the value of the transfers in the areas deemed as the most critical for the improvement of local service delivery. Implementation began from FY 2017/18 and has been updated. This plan is intended to guide annual increases to LGs’ Wage, Non-Wage Recurrent and Development transfers until FY 2023/24. The MTP will continue to be implemented with a mix of domestic and external resources (i.e. World Bank UgIFT and USMID programs and EU Budget Support).
 - o Equity: GoU will continue to ensure that non-wage recurrent and development grants are allocated based on objective, transparent and equitable allocation formulae. In addition, Government will address the marked disparities across LGs in terms of availability of critical staff. This will be achieved by prioritizing additional wage allocations to the least staffed LGs to enable them to fill key positions.
 - o Discretion: Government intends to improve the balance between earmarked (conditional) and discretionary transfers for both development and recurrent funding. Therefore, GoU will aim to reduce overly restrictive guidelines to the allocation of non-wage recurrent and development conditional grants and mainstream performance-based grants to facilities and schools providing a high level of flexibility to service providers over the allocation of these funds. In addition, GoU will aim to improve the adequacy of the DDEG grant with the assistance of EU Budget Support.
- Improve Central Government performance in the oversight, management and delivery of LG services by requiring Central Government MDAs to perform specific functions and evaluating their performance in delivering these tasks as a new component of the LGPA. In specific, the Central Government MDAs will be required to:
 - o Develop, issue, disseminate and ensure compliance to essential guidelines to LGs;

- o Assess the performance of LGs and offer performance improvement support;
- o Conduct routine coordination, oversight, monitoring and technical Support;
- o Take action to improve local government systems and processes used in managing and delivering investments and services.
- Improve LG performance in the management of local service delivery by continuing to assess their performance in key functions through the annual LGPA and linking the allocations of development grants (i.e. DDEG, Education, Health and Water & Environment) to the results obtained by each Local Government. Performance Improvement support provided by central MDAs will also contribute to this goal.
- Improve the effectiveness and efficiency of service delivery by frontline providers, by:
 - o Conducting facility and lower local government level performance assessment and linking the size of operational transfers to service delivery units to their performance;
 - o Facility and lower local government level performance improvement: under the IGFTRP (2020), performance improvement plans will extend to service delivery units to ensure they receive the necessary support to achieve value for money.

As per the design of the revised IGFTRP (2020), GoU will aim to achieve the objectives outlined above by the end of FY 2023/24. Reviews of the progress achieved against each of the revised goals will be conducted on an annual basis.

6.2 Uganda Intergovernmental Fiscal Transfer (UgIFT) Additional Financing

The Government of Uganda and the World Bank restructured the original UGIFT program on April 14, 2020, to deepen the engagement in health and education and increase the focus on service delivery. The changes requested included (i) reducing the timeframe for DLIs by one year to enable frontloading of disbursements in 2020/21 in support of increased health and education transfers in line with the revised MTP for Financing Local Government Services; (ii) aligning the DLIs to the deepened agenda for health, education and cross-cutting issues and (iii) reprogramming or the \$24 million DLIs not achieved in the first two years of the Programme. The Restructuring is supporting the updated IGFTRP with the focus on education and health sectors.

Alongside the restructuring of the original program, further Additional Financing (AF) of USD300million and Restructuring for UgIFT was prepared and was approved by the World Bank Board on the 14th September 2020. The AF extends the scope of sectors beyond health and education to Water and Sanitation and Micro- Irrigation, lengthens the Program timeframe from FY 2021/22 to FY 2023/24 and aligns it to the updated IGFTRP and deepening agenda. Whilst the restructured Program is not dependent on the effectiveness and implementation of the AF, the DLIs and Program expenditures in the original restructured program supports are aligned with and represent a complementary set of DLIs to those under the Additional Financing.

6.3 European Union Budget Support

The European Union (EU) is providing EUR 32 million in Budget Support and complementary Technical Assistance (starting in FY 2020/21) to the Government of Uganda between FY 2020/21 and FY 2022/23 to support the improvement of local investment and service delivery to the citizens by:

- Restoring the adequacy and equity in discretionary financing of LGs for investment and service delivery. This involves the provision of technical and financial support to the Ministry of Local Government (MoLG) to increase the funding of the DDEG grant focusing on its least funded windows (LRDP and LGG) to reduce the gaps between the DDEG highest and lowest funded LGs and LLGs in per capita terms.
- Strengthening MoLG and other MDA's capacity to develop systems for and oversee LG investment management and service delivery. MoLG will aim to (with Technical Assistance Support procured by the EU) strengthen processes, systems and capacity for LG service delivery, coupled with improved routine oversight and technical support. This will involve, among other things, the extension of the LGPA to cover Lower-Local Governments (LLGs), the development of an improved system for LLG reporting, and the development of a tool to check the compliance of Local Government Budgets with the budget guidelines issued by central MDAs.
- Improving LG management of investment and service delivery. To achieve this MoLG (with Technical Assistance Support procured by the EU) will aim to improve the adequacy of LG human resources focusing on critical positions, provide performance improvement support to poorly performing LGs in the annual LGPA, and develop a system for the provision of performance improvement support from LGs to LLGs.

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