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to Uganda**

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1. Executive summary

Local Government, Parliamentary, and Presidential elections were held during 2006. The democratisation process in the country continued, and institutions such as the Judiciary and Parliament have exhibited assertiveness during the multiparty dispensation. This was encouraging. Wider use of dialogue and established constitutional institutions, in order to resolve political differences and boost developments with respect to the treatment of the opposition and human rights, need to be enhanced. Institutions need to become more functional to successfully reflect the competition of ideas among government, opposition, civil society and other organisations.

It was also encouraging that peace talks between the Government and LRA commenced in July 2006. It is hoped that these talks will result in a lasting peace agreement, so that the country can embark on the planned important recovery and development effort in Northern Uganda. Special attention continue specifically on the problems in Karamoja, so that stability in that troubled region can finally be achieved.

During 2006, the economy grew by 6% despite the high energy costs, drought and volatile international oil prices. The maintenance of macro-economic stability in the face of external shocks showed the economy's resilience spearheaded by a dynamic private sector. As a result, the situation in the poverty reduction front continued to improve. However, disparities in the poverty level between the different regions of the country remain.

Maintaining budgetary discipline has improved despite challenges, and targets to contain arrears which have not been met.

There has been progress towards meeting most of the MDGs. However, increased efforts are required for some of them. In education, whereas primary enrolment rates have increased completion rates have deteriorated. Efforts to improve the quality of education are required. In health, whereas access to services by the poor has improved, and the HIV/AIDS situation has been contained, more efforts are needed to improve the quality of services offered.

Concerning the development cooperation, progress in decommitting unused funds and committing them for the last envisaged operations under the 9th EDF had been achieved by the end of the period under review. The relevant targets would be surpassed by the end of the 1st quarter of 2007. In parallel, a significant number of old commitments and projects have been closed and more will follow in 2007.

In the implementation of main programmes/projects, work has resumed on the Jinja-Bugiri Road, and activities commenced on the three operations targeting Northern Uganda. However, serious challenges face some projects (SUFFICE, OUTREACH, ASARECA, KAMPALA BY PASS ROAD) necessitating bold decisions by the NAO and the Delegation.

Progress has been achieved in the implementation of the STABEX-funded operations. The use of remaining funds has also been planned. The different bank accounts with STABEX funds are in the process of being consolidated in order to facilitate their financial monitoring.

Under the EC's thematic budget lines, Uganda continued to benefit by having a number of interventions approved. Closer involvement of the Delegation is being planned with a view to ensuring complementarity of such operations with the NIP and STABEX operations.

Lessons learnt through monitoring of the 9th EDF operations, especially with regards to the paramount importance of having programmes / projects prepared in detail well in advance of their implementation, are being fully utilised for the preparation of the envisaged main 10th EDF interventions.

2. Update on the political, economic and social situation

2.1 Update on the political situation

The year 2006 saw many important political developments in Uganda. Following a referendum in 2005, the framework for multi-party politics was re-introduced after twenty years of the 'no-party' Movement system. A number of political parties were registered. During the same period, the Parliament also approved the Constitutional amendments, among which was the lifting of the Presidential term limits. President Yoweri Museveni won the 2006 Presidential elections in February 2006 with 59% of the votes. The election process was contested by the opposition candidate Dr Besigye. The Supreme Court ruled on the matter upholding the results.

The 2006 Presidential and Parliamentary elections were observed by an EU Election Observation Mission that produced a report containing recommendations aiming at strengthening multi-party democracy in Uganda. These comprise modifications in the legal framework (i.e. electoral laws), civic education, strengthening democratic processes, independence of judiciary, and electoral administration. As a follow-up to the EU EOM report's recommendations, the European Union is supporting strengthening of a framework for multi-party democracy.

Following the 2006 elections, Parliament operates under the multi-party system with the Opposition Parties chairing some of the key committees such as the Public Accounts Committee whose mandate is to hold the Executive accountable. The position of the Leader of the Opposition in the Parliament is recognised. Some progress has been made in strengthening the legal and financial management systems to reduce opportunities for corruption. The Inspectorate of Government (IGG), which is independent and answerable to Parliament, and the PPDA are the most important institutions in this area. However, corruption in the public sector continues to be a challenge. Uganda adopted the NEPAD strategy and acceded to African Peer Review Mechanism (APRM).

The decentralisation process in Uganda is well advanced with ample powers and service delivery responsibilities formally delegated to Local Governments. The creation of many new districts (from 56 to 80) in 2005-2006 has strained the organisational and financial capacities of some districts in providing effective services.

There are thousands of registered Civil Society Organisations (CSOs). In terms of media, several newspapers are published and hundreds of radio stations have a wide coverage in most parts of Uganda. The Media Council, under the President's Office, regulates the activities of the media in Uganda.

Peace negotiations are underway to resolve the armed conflict in Northern Uganda between the Government and Lord's Resistance Army (LRA) which has lasted for twenty years. The conflict had a disastrous effect on local populations, including many women and children who have been abducted and used as child soldiers and sex slaves. A large number of orphans have resulted from conflict and HIV/AIDS. Meanwhile, the Karamoja region is seriously affected by chronic environmental problems, small arms and cattle rustling. Special efforts are needed to restore structural stability in these conflict affected regions where poverty and social indicators seriously undermine the overall efforts in poverty eradication and economic growth. The Government has embarked on a wide consultation with a view to finalising its 'Peace, Recovery and Development Plan' (PRDP), and the Karamoja Integrated Disarmament and Development Plan (KIDDP), which aim to address the conflict resolution and recovery issues in the conflict affected areas.

The EU's Political Dialogue with Uganda, which formally begun in late 2004, got off to a slow start during 2005 with only a few meetings taking place. In 2006, the basis has been established in instituting and maintaining an effective Article 8 political dialogue with the Government with the participation of the EU Member States present in Uganda and the EU Presidency. Political concerns of the international community warrant a more structured political dialogue between the two sides. The main challenges concern consolidation of the multi-party democracy, strengthening of the separation of powers and the oversight function of Parliament, restoration of peace and security in Northern Uganda and Karamoja, the continued fight against corruption, and protection of human rights and respect of the rule of law.

Concerning regional integration developments, these have remained on course. The East African Community has seen its membership increased to 5 with the admission of Rwanda and Burundi. In addition, the three founding members of the EAC have embarked on a wide ranging public awareness campaign amongst their populace with a view to obtaining their support for the envisaged goal of political federation. Furthermore, some improvements in the situation in both the DRC and Southern Sudan are also contributing to the overall betterment of the conditions in the Greater Lakes Region in terms of security and increased trade. Planned interconnectivity interventions in this respect are expected to enhance regional cooperation.

2.2 Update on the economic situation

Macro-economic changes and structural reforms

GoU (Government of Uganda) macro-economic policies have remained broadly satisfactory and on-track with the commitments made by the authorities in the context of the budget process and the IMF's Policy Support Instrument (PSI). The Bank of Uganda has continued to implement a fairly restrictive monetary policy to stave off inflationary pressures and maintained its international reserves above the level agreed with the IMF.

Despite having to face up to a number of shocks throughout the year – weather, national elections, and power crisis –, the Ugandan economy performed relatively well, demonstrating once again its increasing resilience to abrupt changes in internal or external conditions.

- The national GDP is estimated to have grown 5.5% in 2005/06, despite the electricity shortages and weather conditions.
- Annual headline inflation has increased up to 11.3% in December 2006. But this rise is expected to be transitory – a 5% rate remaining the target pursued by the Bank of Uganda.
- Private investment has continued to grow, underlined by the growth of credit to the private sector of 28%. Foreign direct investment increased from US\$133 million in 2000/2001 to US\$261 million in 2005/2006.
- After the Multilateral Debt Reduction Initiative, the external debt service ratio as a percentage of exports and of domestic revenues (about 10%) remains at levels well below critical benchmarks.
- Donor funding is projected at 10.4% of GDP and covers 43% of public expenditure in FY 2006/07. This marks a reduction from previous years where more than half of public expenditure was funded through aid receipts. This reflects both an improvement in tax collections (domestic revenue mobilization has improved but remains low at 13.2% of GDP), and the decreasing trend of donor inflows.

Integration into the world economy and negotiation positions with regard to the EPA

Non-traditional exports (fish, flowers and vegetables), and tourism have been growing rapidly, while the value of coffee exports (traditionally Uganda's major export) has recovered modestly as international prices have rebounded. But the overall export/GDP ratio of 14.8% in 05/06 is still low. The trade deficit has however widened as demand for and prices of oil increased. The deficit for 2006 stood at USD 1,345 million.

Uganda is negotiating an Economic Partnership Agreement (EPA) with the EU as part of the 16-member East and South African (ESA) group. In addition, Uganda belongs to COMESA and forms the East African Community together with Kenya and Tanzania. EAC is the most advanced of the regional groupings and is perceived as one of the most dynamic regional groupings on the continent. EAC achieved Customs Union status in 2005, with a 3 band tariff structure (0, 10 and 25%) plus a category for sensitive products. Member States are working towards convergence on duties, such as VAT, corporation tax and excise, and annual pre-budget consultations are customary. Whilst political commitment to regional integration, remains high, the main challenge for the country will be to ensure that any negative impacts on industry and poverty eradication are identified, and mitigation measures put in place.

Uganda also participates in the COMESA integration programmes, but progress in the Free Trade Area has been limited to date. Several studies have been commissioned in a bid to enhance macroeconomic convergence within the COMESA region.

Quality of management in public finances and budgetary expenses

Fiscal developments, although broadly in line with expectations, have been mixed. Government has pursued its objective of gradually reducing the fiscal deficit (-1% of GDP in 2005/06 to 7.5% of GDP excluding grants) reflecting an increase in tax collection but also a decrease in aid flows. A prudent borrowing strategy was maintained despite increased pressures to speed up investment in the energy sector.

Maintaining budgetary discipline has however remained challenging. Targets to contain the creation of arrears have not been met. In FY 2005/06 over-expenditure in public administration and defence led the World Bank and other donors to reduce their budget support disbursements.

Budget allocations for poverty related expenditures have remained relatively high (Government executed 99.5% of the approved Poverty Action Fund (PAF) allocations for 06/07 – this represents 35.7% of total expenditures excluding interests) and indicative sector ceilings for the 07/08 budget demonstrate the on-going commitment of Government (and donors) to fund these – particularly in the case of the Education sector. Allocations to the health sector have however dropped, on account of a reduction in donor support.

Significant progress has been achieved in strengthening and updating the legal framework and regulatory environment for PFM, particularly in the areas of accounting, procurement and external oversight, whilst the quality of financial information has also improved. However, on account of the relevant novelty of these legislative changes, it is recognised that fiduciary risks remain high. It is intended that strengthened legislation and capacity building of agencies concerned should provide an avenue for intensified efforts to curb corruption

The implementation of the Integrated Financial Management System (IFMS) has progressed well. The system, which is now fully operational in all Ministries and most Government agencies should now contribute significantly to strengthening control, and reporting on Government operations. IFMS is part of a broad Public Finance Management and Accountability reform programme.

A table with key economic data is attached to this report.

2.3 Update on the social situation

In line with good economic performance, key social indicators improved during the 1990s. The introduction of universal primary education has been followed by big improvement in distribution of expenditures for primary education, largely in favour of the poor and of girls. Gross primary school enrolment increased from 71% of school age children in 1990 to 113 percent in 2005 although unsatisfactory primary completion rates remain a challenge. On going efforts to improve the quality of education also need to be strengthened.

<i>Indicator</i>	<i>Outcome 2002</i>	<i>Baseline 2003</i>	<i>Target 2004</i>	<i>Status 2004</i>	<i>Status 2005</i>	<i>Status 2006</i>
Primary Gross Enrolment ratio	-	127%	131%	124%	108%	112.5%
Primary Completion rates	56%	62%	63%	51%	48%	Not yet available

The long effort to bring health services closer to the poor, as well as the recent abolition of user fees has also helped to improve the access of the poor to public health services. As a result, under-five mortality declined from 180 per 1,000 live births in 1988/89 to 152 in 2000. These achievements enabled Uganda to improve its ranking in the UNDP's Human Development Report from 154 out of 173 countries in 1994 to 144 out of 177 countries in 2005.

As demonstrated in the table below, Uganda has made substantial progress towards achieving the MDGs, although more needs to be done if all are to be achieved.¹

¹ It is important to note, however, that Uganda's long-term development objectives are set out in the PEAP and that the PEAP contains targets that are as ambitious, and in certain areas (HIV/AIDS), even more ambitious than the MDGS.

<i>MDG goals that are likely to be attained, with continued good policies</i>	
MDG 1	Eradicate extreme poverty
MDG 3	Promote gender equality and empower women
MDG 6	Combat HIV/AIDS
MDG 7	Ensure environmental sustainability
MDG8	Develop a global partnership for development
<i>MDG goals that may be achieved with intensified efforts</i>	
MDG 2	Universal primary education
<i>MDG goals for which strengthened policies, institutions and funding is necessary</i>	
MDG 1	Hunger
<i>MDG goals unlikely to be met, even with improved policies, institutions and funding</i>	
MDG 4	Reduce child mortality
MDG 5	Improve maternal health

It is notable that Uganda's economic growth and increases in household income have not been achieved through an expansion of employment in the manufacturing sector. The only notable change that has taken place in the structure of employment is a shift away from food crops to cash crops. Agriculture, which is relatively more labour-intensive, (especially the food crop sector), still has the highest incidence of poverty. Provided this sector can continue its healthy growth without any increase in inequality, (which should be possible in a smallholder based production), poverty reduction can continue.

Education: Over the last three years, Government has continued to give priority to education by increasing the total sector budget by about 2.6% (in nominal terms) over the last FY. Government policy has given importance to basic education by enhancing access and equity to primary education. Steps have also been taken to increase access to post-primary education for all children who complete their primary education. Challenges remaining include:

- persistent rural urban disparities and persistently high school fees in private schools;
- managerial limitations particularly at the district and frontline facility levels;
- Inadequate funding, especially for hygiene and sanitation, and for the teachers' wage bill;
- lack of school feeding programmes;
- poor coordination of HIV/AIDS awareness related activities;
- restricted placement of books in the hands of pupils/students and lingering insecurity in certain parts of the country.

Population: The 2006 Uganda National Household Survey shows that the estimated population of Uganda is 27.2 million with an average population growth rate of 3.4% between 1991 and 2002 censuses. Females constitute 51% of the total population and this overall population is dominated by high proportion of children below 15 years (amidst a constantly rising household number) giving it the characteristic of a highly dependant population.

A new report by the UN Population Division, "World Population Prospects" has shown that Uganda has the youngest population in the world. Such a young population with more consumers than producers poses daunting challenges for a developing country like Uganda particularly in the provision of social services. The report shows that at more than 6 children per woman, Uganda is also among the top ten countries with the highest fertility rates and the third highest rate of natural population increase in the world. The report also states that to achieve reductions in population growth, it is essential that access to family planning expands in the poorest countries of the world like Uganda.

Health outcomes for Uganda remain consistently poor. The Uganda Demographic Health Survey 2000 recorded Infant Under-five mortality rate at 152 deaths / 1,000 live births, Total Fertility Rate of 6.9 and Maternal Mortality Ratio at 505 deaths per 100,000 live births. The 2002 Uganda Participatory Poverty Assessment identified large families as a primary cause of poverty. High fertility has a particularly negative impact on maternal health, thus influencing a mother's ability to adequately care for her children. Persistent high population growth rates may undermine achievements in poverty reduction and render provision of social and economic services

unsustainable. Reproductive and child health services are still inadequate. Political leadership and action is perhaps the most critical factor in this respect.

Health and HIV/AIDS: The Health Sector Strategic Plan, finalized in October 2005, is the guide to operations in the health sector for the next five years. Many of the HSSP I output targets were achieved and in some cases surpassed. User-charges were abolished in 2001 in all government health facilities except for private wings in hospitals. The combination of improved physical access, improved quality of care, and removal of major financial barriers for the poor have resulted in a dramatic rise in utilization of public sector services. Significant gains were realized in many of the priority programmes notably immunization. Mother and child healthcare remains however one of the bigger challenges. Malaria continues to kill approximately 100,000 people per annum.

Human resource capacity in terms of numbers and skills poses a special challenge. Severe constraints still exist in under-funding, frequent stock outs of essential medicines, and lack of equipment. Access to basic emergency obstetric care remains extremely low too. The National Health Policy objective of making the non government sector a major partner in national health development has to a large extent been achieved. The HIV/AIDS epidemic continues to be contained effectively. The 2005 Sero-Behavioural Survey, reports the national prevalence rate at 6.4%. A successful policy of universal access to ARV has been introduced. Despite the success, there is limited access to clinical, palliative, and home based care, as well as inadequate supply of drugs including those for opportunistic infections and ART. Male involvement and infant feeding have also been incorporated in PMTCT. Demand for VCT has increased, resulting however in inadequate counselling & laboratory facilities and personnel. Structures have been created for the integration of HIV/AIDS issues into sector strategic plans. These programmes have been relatively successful, although challenges remain, e.g. as regards stigma against HIV positive workers.

Employment conditions: Official unemployment is low at 3.2 percent but this statistic is of limited relevance in a country where about 73% of the working age population is engaged in agriculture. The UNHS 2006 indicates that the annual labour force growth rate in Uganda is 3.6% and 14% of the total labour force has never received any formal schooling. 85% of the labour force remains principally rural and the labour market is characterised by significant under-employment and surplus rural labour, exacerbated by high population growth. This keeps wages in rural and unskilled urban sectors low. However, at the same time, significant skills shortages remain in (largely urban) sectors employing scarce specialist skills. As a result, salaries in these sectors are relatively high. This underlines the importance of linking the education system to skills required by the public and private sectors. A number of initiatives are at varying stages of design and implementation to improve the employment situation in the country.

2.4 Update on the environmental situation

Physical Environment

One of the key environmental issues with visible consequences on Lake Victoria, with diminishing water level, and the related energy crisis in Uganda is the variability in rain fall and the reduction in the duration of the dry season where evaporation is the critical issue. In particular, the September to December 2006 rainfall season was influenced by moderate El Niño conditions which matured towards the start of the season. As predicted the rains were rather poor over many parts of the country during the month of September but picked up mid October and reached peak levels in November/early December. Floods were reported in a number of places during the peak rains especially over the Lake Victoria Basin and central regions, and to a certain extent in the western region. Consequently the lake level gained about 1m as compared to the level in December 2005.

Land degradation is one of the main environmental issues facing Uganda. The main causes are population pressure, inappropriate land management practices and over-stocking on rangelands.

The main water environment concerns are the issues of quality and access. The main threats to quality include eutrophication, pollution, and proliferation of invasive plants.

The total forest area in 2006 is estimated at 19,000 Km², i.e. 9.7 % of total land area. Overall, 70 percent of the nation's forests are not protected; they act as the nation's main fuel source and are becoming increasingly degraded. Encroachment, involving the conversion of gazetted forest land to

agriculture, has become a major problem throughout the nation and per capita forest has declined from 0.3 ha in 1990 to less than 0.1 ha in 2006.

Uganda's wetlands support a rich diversity of plants and animals and serve an important natural role for sediment, nutrient and toxin retention, stabilisation of the hydrological cycle, harbouring biodiversity, and water supply in rural areas. They are under threat in many ways including from encroachment, brick production, drainage and pollution.

Fisheries are under threat from land degradation causing excessive silting in lakes and rivers, thus affecting the level of sustainable catch, and from drought, pollution and floating weed.

Socio-economic Environment

Although addressed by the Land Act 1998, land ownership remains confused in many areas and plots fragmented and small. There is no easy solution to this problem, which is likely to have a major impact for years to come.

Water and sanitation are problem areas in major urban centres with significant parts of the population unable to gain access to clean water. Slums and squatter communities are also a problem in bigger towns and particularly in Kampala.

Uganda's main energy source is from biomass accounting for about 93 percent of demand (including about 5 percent charcoal) while petroleum products account for six percent and electricity one percent of demand respectively.

Environmental policy and legislative framework

Uganda has many plans and strategies in place. However, the main areas for improvement include: social and poverty issues, international commitments, high-level government commitment, co-ordination with donors and budgetary provision. There is nominal protection for and access to land despite the Constitution and the Land Act of 1998. Several potentially good environmental initiatives are thwarted and compromised by the land tenure issue.

A good environmental legislative framework is in place although there are aspects that lead to implementation weakness including; institutional rivalry, inadequate policy implementation, lack of clear guidelines and budgets, poor monitoring system in biodiversity conservation, political interference, and weak law enforcement.

Uganda has entered into several international and regional environmental conventions and, as a result, has played an active part in regional environmental management.

There are a number of active NGOs in the sector, including ACODE, CARE, Clean Up Uganda, Environmental Alert, Greenwatch, and the Ugandan Wildlife Society.

3. Overview of past and ongoing co-operation

The End-of-Term Review of Uganda's NIP under the 9th EDF CSP, was conducted during 2006 in collaboration between the European Commission (including the Delegation) and the Government, involving also EU Member States and civil society representatives. The conclusions of this exercise confirmed the relevance, to the overall objectives, of the strategy followed. Consequently, the Country Strategy for Uganda was maintained. On the other hand, the review concluded that the conditions necessary to trigger the commitment of the remaining funds under the B-envelope were not in place. As a result, the overall amount of the B-envelope funds for Uganda was reduced to €38,600,905.57.

The EC-funded Global Budget Support has contributed to the maintenance of the country's macroeconomic stability, to the strengthening of public finance management, and to the implementation of the poverty reduction agenda. Furthermore, it has allowed the EC to be an active partner in the policy dialogue with Government and other Development Partners (DP). Such enhanced cooperation, coupled with the fact that an increasing number of DPs are adhering to the Uganda Joint Assistance Strategy, helps in gradually improving aid absorption capacity and ownership. Furthermore it allows the DPs to exercise sufficient flexibility in their responses to evolving trends based on their relevant mandates and comparative advantages as in the Paris Declaration.

Concerning support under the focal area of transport infrastructure, the EC has emerged as a major DP through its funding of construction, rehabilitation and maintenance works, as well as

institutional support, and through policy dialogue. Long involvement in the sector by the EC, has validated the need for projects to be well elaborated before relevant Financing Agreements are signed in order to prevent delays in implementation. Furthermore it has been learnt that such interventions must include significant institutional strengthening activities.

Support to the second focal area of rural development, channelled through sector budget support, has shown positive results, especially in terms of policy reforms. The establishment of a new extension system, providing agricultural advice based on clearly-identified needs by farmers and delivered through private service providers has promoted the empowerment of smallholders. The National Forestry Authority has carried out its tasks satisfactorily, at times under difficult conditions.

The smooth implementation of some programmes (Support to Decentralisation, Human Rights and Good Governance, Northern Uganda Rehabilitation) necessitates an extension of their duration (through appropriate riders to the relevant Financing Agreements). This is mainly due to the longer than envisaged period that their tendering and start-up activities have taken. Also, the fact that these programmes have only a maximum of 12 months implementation period left after their D+3 dates, makes it prudent to have an additional 6 months in order to ensure their proper closure.

3.1 Focal sectors

3.1.1 Infrastructure

a) Results

In the transport sector, the Government continued the implementation of its Road Sector Development Programme, involving rehabilitation of existing infrastructure, mainly funded by donors, and road maintenance, mainly financed by Government. The overall condition of the national road network of 10,800 km can be classified as: 20% in good condition, 62% in fair condition, 17% in poor condition, and 1% in bad condition. The continued shortfall of road maintenance funding has exacerbated the existing backlog of both routine and periodic maintenance. The high percentage of roads in fair condition continues to pose a serious challenge to preventing deterioration to poor condition. A comprehensive review of the condition of the national network was launched in 2006.

In terms of institutional reform, a major milestone was achieved with the enactment of an Act setting up the Uganda National Roads Authority. In accordance with the relevant Act, the Ministry of Works and Transport prepared to appoint the UNRA Board in early 2007. In addition, the Government followed up on its decision to establish a Road Fund. Relevant legislation is planned to be submitted to Parliament by mid-2007.

In parallel with these developments, appropriate assistance was mobilised to advise on the restructuring and right-sizing of the Ministry of Works. This reform should ensure a proper division of labour between UNRA and the Ministry. In its new role, the Ministry will focus on policy formulation, regulation and monitoring, while UNRA will be responsible for managing the national road network.

Coordination and policy dialogue between Government and the 5 Development Partners active in the roads sector (EC, World Bank, ADB, Denmark and Japan) takes place in the framework of the RSDP-Steering Committee comprising Government officials and donor representatives. These meetings are chaired by top Government representatives. A measure of complementarity is indeed achieved with the workings of this group's meetings. However, due to the on-going institutional reforms, the set up of an appropriate sector working group is to be reviewed during the first half of 2007. The Government organised the third Joint Transport Sector Review in October 2006 and committed to taking corrective actions in respect of budgetary allocations and institutional reforms.

The road sector faces a number of challenges of technical, legal, and institutional nature. In addition to those mentioned above, there is need to also address improvements to axle load control, data collection, road safety, works delivery methods, local construction industry, planning and investment prioritisation, strengthening stakeholder consultation as well as the integration of cross-cutting issues into all aspects of implementation of the RSDP.

The table annexed to this report shows the updated indicators on results achieved by end-2006 and on targets from 2007 and beyond.

b) Progress in activities

There are currently three large road projects along the Northern Corridor Route funded under the 8th and 9th EDFs. On the Jinja-Bugiri road section, work resumed in July 2006 under a new works contract following the termination of the initial one. The resumption of work on this project meant the 2006 forecast on commitments was achieved. Moreover, the new Contractor has demonstrated good organisation during the mobilisation and start-up phase, thus providing reasonable assurances that this time the rehabilitation of this important section of the Northern Corridor Route will be implemented without major problems.

Progress of the works on the Kampala Northern By-pass Road project remained inadequate with approximately 55% completion by end-2006. The Contractor bears the main responsibility for this. In response to a number of claims by the Contractor, the two contracting parties agreed on a framework for an amicable settlement of the disputes. The settlement has not resulted in an improvement in the rate of progress and high level meetings were scheduled to highlight the issue.

On the Kampala-Mbarara Road, the tender documents for works were updated in 2006 and the tender for the supervision was launched in November 2006. The delay in implementing this project, compounded with fuel price rises, will most probably necessitate additional funding, if the objectives of the relevant Financing Agreement are to be achieved. This issue will have to be critically reviewed when the results of the works tender are known (in June 2007).

The implementation of the District Roads Re-gravelling project (financed with STABEX funds) continued during 2006 with work on approximately 400 km. A mid-term review is due to take place in early 2007 in order to take a thorough stock of the situation with the implementation of this project and to make appropriate recommendations.

In terms of institutional support, the technical assistance to the Road Agency Formation Unit was fully mobilised during the first half of 2006. A mid-term review was completed in September 2006. It confirmed the relevance of this support and recommended some actions, amongst which the mobilisation of additional experts to support the on-going institutional reforms in the sector.

The last focal sector project under the 9th EDF, i.e. the Backlog Roads Maintenance Programme, was approved at the end of 2006. Its implementation is expected to start in the first half of 2007.

Finally, it has also been planned to execute, during 2007, the necessary studies in preparation of the implementation of the roads sector interventions envisaged under the 10th EDF.

The table below provides key figures on the end-2006 financial situation in this focal sector:

	Amount	Percentage (as against total assigned funds)
Funds assigned	€ 224,599,500	
Funds decided upon	€ 217,599,500	96.8%
Funds contracted	€ 111,208,648	49.5%
Funds disbursed	€ 44,404,332	19.7%

The rather low level of commitments is explained by the fact that works contracts for two projects (Reconstruction of Kampala-Mbarara Road, Backlog Road Maintenance) have not yet been signed. Only for the first of these projects the amount to be contracted is €87 million, i.e. 38% of the total of the assigned funds. The low percentage of funds disbursed is mainly due to the delays caused by the termination of the initial works contract for the Jinja-Bugiri Road and the time taken (18 months) to mobilise a new Contractor. A new Contractor has been agreed upon and is in place, and works have advanced. In addition, the progress of works on the Kampala Bypass Road project has been below expectations, adversely affecting the rate of the relevant payments.

c) Degree of integration of cross-cutting themes

All contracts concerning the preparation and implementation of road projects provide for environmental specialists to ensure compliance with the national environmental legislation. Tender dossiers for road works routinely include provisions for appropriate HIV/AIDS awareness campaigns. As far as possible gender issues are duly taken into account.

3.1.2 Rural Development

Results

The Plan for Modernisation of Agriculture (PMA) is a framework which sets out the strategic vision and principles upon which interventions can be developed to address poverty eradication through transformation of agriculture and related sectors. The PMA strikes at the heart of rural poverty through a series of coordinated actions in inter-related intervention areas. These are: agricultural research, agricultural advisory services, agricultural education, rural financial services, marketing and agro-processing, rural infrastructure, and natural resources management. In addition, a non-sectoral conditional grant is made available to selected districts for PMA related activities.

A broad-based PMA steering committee, chaired by the PS/ST oversees the activities of the PMA. A PMA donor sub-group coordinates the donor contributions to the PMA process. Donors are also active in a number of PMA sub-committees. The major donors are: EU, World Bank, DFID, AfDB, and IFAD. During the reporting period the European Union has continued to play a lead role in the PMA. Substantial contributions were made to Agricultural Research (NARO) and Agricultural Advisory Services (NAADS). In particular:

- The EU has continued to provide Policy TA support (direct policy advice to MAAIF top management, donor coordination and planning) to the Ministry of Agriculture. It has also supported the NARO decentralisation through its change management TA.
- The support to NARO was extended until mid 2006, to consolidate the NARO transition into the new NARS.
- NAADS and NARS financing by the EU continues through the PMA Sector Budget Support, of which the FA to the tune of €17.5 million was signed in March 2005. The second instalment (€6.65 million) was made in March 2007.

PMA progress/effectiveness

The extensive evaluation of the PMA carried out by Oxford Policy Management in 2005 concluded that the PMA was largely on track and remains relevant to the rural development framework. In 2006, a 'light' review focused on the agreed PMA undertakings and the PMA related policy actions in the PEAP policy and results matrix for FY 05/06. Out of the 54 PMA undertakings agreed during the 05/06 JAR, 35% was achieved, 54% was partially achieved and 11% was not achieved. Of the 66 policy actions in the PEAP matrix the division between achieved, partially achieved and not achieved was 33, 36 and 30% respectively. The delays in terms of PMA undertakings and policy actions are due to the multi-sectoral nature of the programme and the complexity/sensitivity of issues concerned, generally requiring wide-range consultations with stake-holders, as well as due to the long time that the reform of the Ministry of Agriculture takes. Generally, good progress was made in Agricultural Research and Advisory Services, whereas considerable delays were experienced in undertakings regarding Lands, Agricultural Education, and Natural Resources Management. Overall, the PMA performance can be rated reasonable to good.

The Government, aiming at reinforcing the PMA, has launched new complementary programmes such as the Rural Development Strategy and the "Prosperity for All" programme. Development partners have expressed concern over the relationship between these new programmes and the PMA, and over the risk that they may depart from some of the basic PMA principles with regard to demand driven and private sector service delivery. Government has clarified that these programmes offer new approaches in support of the PMA, which will provide additional resources to ensure effective coverage and impact on rural livelihoods. Further consultation is required on the support to be provided to savings and credit cooperatives (SACCOS), through capacity building support and wholesale loans, as it will be essential to ensure that these institutions are sustainable. The intended and agreed reform of the Ministry has still to be materialised, and the lack of proper financing of the

PMA Secretariat is a reason for concern. On the positive side, in 2006 MAAIF published its own Development Strategy and Investment Plan that will form the basis for future priorities and budget. In conclusion, the overall assessment of the PMA is still positive, and certain pillars are well established and fully operational. Further dialogue is required on the changing policy environment and the PMA principles to ensure that there is consensus on the strategy. A strong policy dialogue with GoU is required, and therefore a strong EC participation in the sector dialogue, to maintain the basic principles of the PMA, while integrating some genuine concerns about roll-out and poverty targeting as expressed by MoFPED and MAAIF.

The table below provides key figures on the end-2006 financial situation of the EDF projects in this focal sector:

	Amount (€)	Percentage (as against total assigned funds)
Funds assigned	31,547,682	
Funds decided upon	31,547,682	100%
Funds contracted	31,078,451	98.5%
Funds disbursed	17,630,746	55.9%

The relatively low level of funds disbursed is due to the fact that the release of the second tranche under the PMA project was effected in the beginning of 2007 and not in late 2006 as scheduled.

Cross-cutting issues

The PMA has made good progress in addressing cross-cutting issues, in particular gender and HIV/AIDS mainstreaming, but there is still scope for improvement. A major issue remains women's access to and control over productive resources, and the fact that with a PMA emphasis on marketable crops, the traditional women's role in food crop production may be overlooked.

3.1.3 Macro-economic support

a) Results

Overall macro-economic management remained solid during the year under review as described in chapter 2.2. Updates on the social situation have been described in more detail under chapter 2.3. Notable amongst these is the reduction in income poverty over the last three years from 36% to 31% as documented by the latest National Household Survey, pointing to the positive impact on the ground of these economic trends. Such impact has been most pronounced in rural poverty reduction. Other results indicators, such as those used in the social and PFM sectors for variable tranche disbursements, while broadly positive, point to the need to accelerate progress in the delivery of reforms (e.g. procurement indicator) or high quality government services (e.g. numeracy/literacy indicator).

The two tables annexed to this report give an overview of key economic data and of macroeconomic indicators and targets. Donors active in the macroeconomic support area (WB, UK, ADB, EC, Ireland, Netherlands, Norway, Sweden) are coordinating activities. They are also in intense discussions aiming at agreeing on a joint framework for the assessment of issues pertinent to budget support operations.

b) Progress in activities

The second fixed and the first variable tranches for the PABS V programme (€92.0 million) were released in November 2006. Disbursement for the variable tranche performed at 80% on account of failure to reach indicator targets in the areas of Procurement and Disposal Entities statutory displays of tender processes and results, and in child deliveries in health facilities.

With the award of the contract for the support to the Government Monitoring and Evaluation functions in December 2006, the tendering of the main components of PABS V's institutional support have been finalised. The support to the Public Procurement and Disposal of Public Assets Authority (PPDA) started in October 2006.

c) Degree of integration of cross-cutting themes

Aspects of gender equality, HIV/AIDS and environmental protection, are specifically catered for in the PEAP. As regards reducing the gender gap, progress has been reported in the health and education sector programmes. Progress with regard to combating HIV/AIDS has been mixed, as evidenced by sero-prevalence surveys. Institutional strengthening activities have been initiated.

3.2 Projects and Programmes outside the Focal Sectors

3.2.1 Micro-projects Programmes

Acholi Programme: The Acholi Programme (AP) ended in June 2006. Around 200 micro-projects have been completed in the Districts Gulu, Kitgum and Pader. Cooperation activities with Local Government (LG) have concluded with final training activities and handing over of programme assets and projects to the local authorities.

The extraordinary 'macro' projects in Acholi have been finalised (house of Paramount Chief, Pader Airstrip, Kitgum High School and Anaka Hospital rehabilitation).

Due to the continued high percentage of IDPs in the region, the regular implementation of mainly social infrastructure projects had to change its focus to service delivery to a displaced society. Results of this approach remained limited due to long and difficult planning procedures within LG.

The 'lessons learnt' evaluation study covering the three recently completed MPP related programmes (MPP, AP, and KP) has started (stakeholder workshops in Acholi and Karamoja, programme review consultancy) with the focus on lessons learnt for the 9th EDF programmes.

Karamoja Programme: The European Commission supported the Programme Management Unit KPIU with the Programme Manager and programme and support staff. The programme is in its closure phase and ending in March 2007. Around 90 community identified micro-projects at District and Sub-county level have been completed, capacity building of district personnel as well as support to peace initiatives within the draft Karamoja Integrated Disarmament and Development Plan (KIDDP) has been undertaken. The construction of staff houses and offices blocks for future EC funded programmes has started and will be the final activity under this programme.

Due to the insecurity caused by armed warrior activities against other Karimajong ethnic groups in raiding cattle or against other civilians or military authority, the programme faced huge security problems of accessibility to sub-counties with project activities. The pastoralist cultural traditions in Karamoja required very specific approaches to achieve responsibility and ownership towards the projects initiated.

3.2.2 Support to Decentralisation Programme

The 9th EDF Support to Decentralisation Programme started its operations in July 2006, when the Ministry of Local Government implemented the induction training for local councillors, elected after the local government elections in February 2006. The Programme Management Unit of the programme started its operations in November 2006. The programme is focusing on supporting the policy framework for decentralisation, local government capacity building, support to maintenance systems as well as downward accountability and democratic local governance. Cross-cutting issues are being mainstreamed into operations. The European Commission is one of the signatories of Memorandum of Understanding for the Local Government Sector Investment Plan (LGSIP) and the programme will support a more coherent approach to decentralisation. The programme links to the Decentralisation Support Group.

3.2.3 Technical Cooperation Facility

The Technical Cooperation Facility (TCF), operational since 2004, is being used to finance preparatory studies, short-term technical assistance, participation in seminars/workshops etc, and training. It has proved to be a very flexible and useful instrument that can allow effective responses to requirements pertinent to the EC/Uganda development co-operation. In order to undertake preparatory studies for the 10th EDF programme, a new TCF financing proposal will be prepared in early 2007 using funds from project closures, including from the existing TCF, which cannot be utilised beyond March 2007 because of the D+3 rule.

3.2.4 Projects in Governance, Human Rights and Decentralisation

Commercial Justice Reform Programme: The purpose of the project is to support the implementation of the CJRP and thus the ability of the private sector to make and enforce commercial contracts. The first programme estimate was signed after approval from the Commission to proceed with the implementation modality of programme estimates instead of basket funding as originally designed. The period of execution of the operational implementation phase was also extended, due to delays incurred, from December 2006 to December 2008.

Degree of Integration of cross-cutting issues

The Justice Law and Order Sector is presently discussing ways of mainstreaming HIV/AIDS interventions in all government institutions under the sector. Mainstreaming gender is also being discussed.

Donor Coordination in the Sector

The programme is under the Justice, Law and Order Sector (JLOS), which is the sector-wide approach to the reform process within the administration of justice and maintenance of law and order. A multi-donor funding arrangement is in place, comprising a number of donors (Austria, Denmark, Germany, Ireland, Netherlands, Sweden, UK, EC, Norway, and the WB). The EC Delegation participates in monthly coordination meetings to assess progress of implementation, as well as quarterly visits to institutions concerned to monitor progress on agreed outputs.

Human Rights and Good Governance Programme: The purpose of the programme is to contribute to the sustainable development centred on human security and good governance, as well as to strengthen rule of law in Uganda and to enhance the participation of Ugandan citizens in decision making. In February 2006, support was provided for 10,000 local election observers (50 % of total polling station coverage) to observe the 2006 Presidential and Parliamentary elections. The PMU started its operations in December 2006. The start-up programme estimate has been signed.

Degree of integration of cross-cutting issues

Discussions about ways to integrate the human rights based approach to programming in all aspects of the programme as well as mainstreaming gender issues are on-going.

Donor Coordination in the Sector

The programme liaises with the Justice, Law and Order Sector, considering that some of the components of the programme are being supported under this programme. The JLOS Strategic Investment Plan is the overreaching policy framework and strategic guideline, with focus on both commercial and criminal justice. Development Partners involved, as well as modalities of coordination, are as outlined for the previous project.

3.2.5 Mid-Western Towns Water and Sanitation Programme

The purpose of the project is to improve access to sustainable water supply and improved sanitation in the towns of Masindi, Hoima and Mubende through rehabilitation and expansion of the existing water supply systems and construction of new sanitation facilities. The implementation of the project commenced in December 2001 and is expected to be completed in August 2007.

Main activities in 2006:

- Construction works for the Hoima Water supply system
- Construction works for the Hoima sewerage system
- Construction works for Mubende Water supply system
- Construction works for Mubende on site sanitation facilities

Results achieved in 2006.

- Official commissioning of the new Masindi Water supply system was carried out in Aug 2006.
- Substantial completion of the works for the new Hoima town Water supply system.
- Substantial completion of the works for the new Mubende town water supply system
- Substantial completion of the works for the on site sanitation in Mubende town

Cross cutting issues:

- A Technical assistance team in close collaboration with community leaders and town officials carried out a sensitization campaign in households mainly in Masindi and Hoima, addressing issues of clean water and hygienic sanitation with the aim of generating demand for household connections, mainly to the sewerage system.

Donor Co-ordination in the sector

- Donor co-ordination in the sector is being steered by the Water Supply and Sanitation Donor Partners Group which convenes monthly, currently under the chairmanship of Austria.
- Additionally the donors participate in the Sector Working Group comprising stake holders from Government of Uganda institutions within the sector, and civil society organisations.

3.2.6 Forest Resources Management and Conservation Programme

Results: The Forestry Programme's main purpose is to improve forest management for conservation and increased sustainable production by government, individuals, groups and the commercial sector. It is spread over seven result areas and it is implemented by the National Forestry Authority (NFA), an autonomous agency established to manage the Central Forest Reserves (CFRs). The Steering Committee chaired by the Permanent Secretary, Ministry of Water and Environment oversees the activities of the Forestry Programme. During the reporting period, the European Commission has continued to play a lead role in the Forestry Sector in particular:

- The 12 MEURO Financing Agreement of FRMCP was extended to 31 December 2008 to enable the programme to finalise its activities
- Support has been extended to the Sawlog Production Grant Scheme (2.6 MEURO) to encourage the private sector to plant commercial forest plantations.
- Continued Technical Assistance support to the Sawlog Production Grant Scheme (SPGS)

Achievements: 5,000 ha of timber plantations have been planted under the SPGS while 1,922 ha of demonstration plantations have been planted by NFA. The campaign against illegal timber and charcoal had reduced these illegal activities considerably during the reporting period. Nearly 5,000 small contracts were given directly to local people near forest to carry out forestry operations. Various guidelines for operations have been completed. Technologies in nursery and plantation management have been extended to private investors in commercial forest plantations and the enthusiasm of the private sector has continued growing.

Most of the programme activities enhance the environment. Those with some level of negativity like timber harvesting are being designed with the concept of sustainable forest management in mind. The biggest uncertainty here is how far Government is prepared to maintain commitments to its own National Forest Policy and Plan.

The main donors in the forestry sector are the Norwegian Embassy and the European Commission. Although DFID is still a key player in the sector, its funding came to an end in 2005. The Environment and Natural Resources Donor group chaired by the Norwegian Embassy coordinates the donor contributions to the Sector.

3.2.7 Sustainable Tourism Development Programme

Activities 2006: Outline National Tourism Curricula were developed and handed over to the Ministry of Education and Sport. Slow progress in development of the Tourism Bill which was eventually prepared for submission to Cabinet late in the year. Draft Statutory Instruments designed to implement the regulations bringing the Bill to life and regulating the industry were prepared. Additional promotional material prepared and delivered to the re-branded Tourist Board now working as Tourism Uganda. Electronic newsletter preparation and distribution facilitated. A MTR was carried out. Extension to December 2007 was agreed.

Achievements 2006: There has been significant positive exposure of Uganda as a tourism destination as a result of media coverage in the main source markets generated through public relations activities funded by the programme. The Tourism Uganda photo library has been transferred to hard disc format to facilitate distribution. Specialist training for Uganda Wildlife

Authority staff working on the mountaineering sector was supported. Further guide training, in particular in driving skills and customer care.

Close co-operation was maintained with the World Bank PAMSU programme which funded the development of the Tourism Bill. Joint activities included the funding of an inspection visit to Namibia by Tourism Uganda officials who were exposed to the workings of a similar Tourism Act in that country.

3.2.8 SUFFICE

SUFFICE is in its 4th year of operation. Implementation is expected to end in 2007. Donors involved include FSDU, WB, AfDB, Stromme, USAID, and GTZ. Co-ordination meetings are taking place on the local rating fund which is a multi-donor fund managed to rate MFIs.

SUFFICE has five main components namely:

- Financial support (Credit lines and bank guarantees)
- Capacity Building Matching grants components
- New Product Development component
- Credit Reference Bureau
- Local Rating Fund that is partially financed by FSDU (DFID funded programme).

Progress/Achievements

- Financial Support (Credit lines and Bank Guarantees)
Eight Credit Lines with a total of UGX 755million to SACCOs and seven Bank Guarantees totalling UGX 2.882 billion were issued in 2006. Interest payments due on the loans have been fully recovered.
- Capacity Building Matching Grants components
90% of the amount was given to thirty four (34) SACCOs totalling UGX 988,763,691
- New Product Development component
Nineteen (19) SACCOs were developed, launched and rolled with a total of UGX 583,391,680 during the year 2006; evaluation and monitoring is taking place.
- Credit Reference Bureau
Funding under this component has been delayed pending the establishment of the Credit Reference Bureau managed by Bank of Uganda (BoU).
- Uganda Local Rating Fund
The Local Rating Fund rated about 10 MFIs and contributed to the subcontract with Planet Rating which aims to complete 30 ratings with multi donor funding.

Challenges

The evolution of GoU policy which focuses on SACCOs and aims to establish a co-funding/basket funding arrangement with donors and the Micro Finance Industry, affected the accreditation system (rating) activity.

Planet Rating target of 30 ratings was not achieved mainly due to lack of offices. However, the rating system if sustained, is a good tool for performance measurement and evaluation of the MIFs. An MTR for the project was carried out in 2006. Its main recommendations are to be discussed between the Delegation, the NAO, and the Implementing Authority with a view to adapting the programme's activities accordingly.

3.3 Utilisation of resources for Non-State Actors

In 2001, the civil society organisations (CSOs) organised themselves into an interim Cotonou Steering Committee. Since 2003 this has developed to a permanent network based Civil Society Steering Committee (CSSC) currently chaired by the Uganda National NGO Forum. The Interim Support Programme 2003/2004 to Non-State Actors under STABEX has supported the preparation of the 9th EDF project and strengthened the advocacy role of civil society. It has also increased the understanding of the Cotonou Agreement by Non State Actors. CSOs have been consulted, during 2006, in the drafting of the 10th EDF CSP/NIP for Uganda.

Civil Society Capacity Building Programme: The institutional framework for the complex and so far unique 9th EDF Non State Actor programme is fully functioning with a Civil Society Steering Committee, and a Programme Advisory Board with two additional independent CSO members and an observer from DFID, as well as the NAO and Supervisor from the OPM.

The programme contracted 47 CSO grantees by end-2006. Seven intermediary CSOs, responsible for regional operational clusters, have been contracted to assist the PMU in working with successful applicants on capacity building. One such intermediary organisation is contracted to implement the Promotion Fund for cooperation with very small CSOs working on minority issues in Uganda. The Government assignment, to prepare a regulatory framework for Non Governmental Organisations in Uganda, is being implemented under the Office of the Prime Minister.

3.4 Utilisation of B-envelope

The 9th EDF Mid-Term Review had reduced the amount of the B-envelope to €58,500,000. As a result of the End-of-Term Review, conducted in the second half of 2006, this amount is to be further reduced to € 38,600,905.57.

Northern Uganda Rehabilitation Programme

After a detailed preparation phase, this programme of €20 million, commenced its operations in December 2006. The Programme Management Unit was fully operational in the last quarter of 2006. The first Call for Proposals, centred on the theme “IDP self-reliance and return to home areas”, of a total amount of €5 million, was launched in November 2006. The PMU organised planning workshops in two northern districts in order to promote the intended participatory planning of the envisaged activities.

The Northern Uganda Rehabilitation Programme is to form an integral part of the currently prepared comprehensive Government/Donor plan for the recovery of the north of the country, i.e. the Peace, Recover, and Development Plan (PRDP).

ECHO

Under the B-envelope, an initial allocation of €14.6 million was made to ECHO for their humanitarian operations in Northern Uganda. An additional amount of €4 million was allocated in the second half of 2006. ECHO’s humanitarian funding for Northern Uganda continued to focus on improving living conditions in IDP camps, while at the same time supporting return as the Juba peace talks gained momentum.

3.5 Other instruments

3.5.1 STABEX

In March 2006 agreement was reached between the EC Delegation and the NAO to arrange the consolidation of the STABEX funds into a single bank account. A new STABEX 1999 account was opened for this purpose and in June the older STABEX accounts with no active projects were closed and the balances transferred to the new account. It is planned that this process of consolidation will be completed during 2007. All new commitments will be arranged under the new STABEX 1999 account.

The following new Channelling Agreements were signed during the year, and activities started:

SX99/16 – The Sawlog Grant Scheme (€2,600,000)

SX99/17 – Redevelopment of the ACOM Database (€140,000)

Good progress was achieved in the implementation of the projects with disbursements amounting to over €11 million during 2006. The support to the Private Sector Foundation Uganda has been completed and is due to be closed and the balance de-committed. The Policy Adviser to MAAIF completed his contract in June and this commitment is also due for closure. Progress has been achieved under the District Roads Re-gravelling project, although there are some problems with managing accountability from Districts and ensuring effective monitoring. The SUFFICE II project, which is co-financed from the 9th NIP, is in its final year of implementation. A Mid-Term Review will assess appropriateness of implementation and will advise on necessary adaptations for its final year and on an exit strategy to sustain the successful components of this long-running support to the

Micro-finance sector. The Kaweri Outgrowers Scheme has made excellent progress and has been cited by Government as an example of successful public-private partnership.

The Support to the Warehouse Receipt System/Commodity Exchange commenced full activities during 2006 following the selection of the Technical Assistance for this programme and the signing of the grant contract with the Uganda Commodity Exchange. The support to the livestock disease control programme (PACE/FITCA) continues to make progress and is due to be completed by the end of 2007. The Support to NARO was completed in September 2007 and should be closed during 2007. Under the TA to the Plan for the Modernisation of Agriculture (PMA), contracts were signed for extension of the TA to the agricultural research reform process, TA to NAADS (agriculture extension) and TA to forestry, all of which have received funding under the 9th EDF NIP. Further TA is planned in support of agricultural research and extension to complement the EC's ongoing sector budget support programme. A TA was finally recruited under the Medium Term Competitive Strategy Programme, which has assisted Government in identifying and designing a new phase of the MTCS to monitor progress in reforms to facilitate private sector development.

Active projects under STABEX 1993 include the construction of the Kagamba-Rukungiri Road, for which final payments are being arranged; the trade sector support programme (UPTOP), which is performing reasonably well; and, the Karamoja Programme, which has been extended to mid-2007 to allow completion of activities. The only active project under STABEX 1992 is the Rehabilitation of the Kampala-Malaba Railway line, which should be completed in 2007. The accounts for STABEX 1990, 1991, 1995 and 1st Protocol were closed in June 2006.

3.5.2 Regional co-operation

Uganda is in charge of the implementation of some regional operations in the field of natural resources management. These are outlined in the relevant annex to this report.

3.5.3 Community budget lines

A number of operations are implemented in Uganda with funding from the various community budget lines. These are described in Annex XII to this report.

3.5.4 ECHO

As part of a regional financing decision for the Greater Horn of Africa area, ECHO for the first time in 2006 started supporting drought affected populations in the Karamoja region through preparedness interventions focusing on water supply for both human and livestock as well as on livestock management and health. During 2006 ECHO continued its humanitarian assistance to internally displaced persons (IDPs) and other victims of the LRA conflict in northern Uganda.

In this respect, ECHO made the following financing decision in 2006 concerning Uganda:

Decision	Amount (EUR)	Grants Awarded	Main Sectors Covered
* ECHO/UGA/BUD /2006/01000	15,000,000	MedAir, NRC, Goal, FAO, OCHA, World Vision, IRC, AVSI, Concern, ACF, UNICEF, Oxfam, COOPI, Danish Red Cross, ICRC, Caritas/CRS	Health, nutrition, water, sanitation, hygiene, NFIs, HIV/ADIS, food security, protection, child protection, co-ordination.
ECHO/UGA/EDF /2006/0100*	4,000,000	UNHCR, ICRC	Protection
ECHO/-HF/BUD /2006/0200**	Overall: 10,000,000 Uganda: 1,310,972	Uganda: Practical Action, FAO, MedAir, DanChurchAid	Water, sanitation, hygiene, livestock, co-ordination
Total	20,310,972		

9th EDF B-envelope.

** Regional decision including cross-border operations. Estimated EUR 1,310,972 allocated to Uganda.

Recurrent droughts prompted ECHO to launch a regional drought preparedness decision in 2006, where supporting pastoral livelihoods in the Karamoja region, faced with forceful disarmament, structural under-development and inter-clan cattle raiding, poses a particular challenge. Significant, additional LRRD efforts are needed to maximise on the combination of EC aid instruments.

In this respect, a deliberate effort was made to step up water supply in both IDP camps and return areas resulting in that approx 37% of total ECHO funds for humanitarian aid in Uganda was allocated to water and sanitation (up from 25% in 2005). Primary health care continued to receive ample funds of about 23% of total resources for humanitarian aid in Uganda, but focus was increasingly shifted from hospital support to peripheral primary health care closer to the beneficiaries (IDPs and returnees). To support the return process and self-reliance in general ECHO also increased funds for food security to about 15% of the portfolio targeting up to 200,000 households (or more than a million people). As a result WFP food rations were further responsibly reduced to between 40-60% according to land access.

As the number of formerly abducted children was reduced, reintegration assistance to children was re-focussed in 2006 on providing employable skills to youngsters - both boys and girls - through vocation training and income generating activities.

The humanitarian reform in terms of 'Cluster Approach' and 'Strengthening the Humanitarian Co-ordinator' was rolled-out in 2006 in Uganda as a pilot country. ECHO has supported this important initiative to improve management and co-ordination of humanitarian assistance and has continually engaged with other donors, the UN and NGO on its implementation and adaptation to the Ugandan context.

The more effective Malaria treatment protocol of ACT was finally implemented in 2006 in Uganda and all ECHO partners in the health sector has supported its fast tracking in northern Uganda with training of relevant health workers among others.

3.5.5 European Investment Bank

The overview of the 2006 financial operations of the EIB in Uganda is shown in the attached annex.

3.6 Assessment of performance indicators

The indicators, to measure assessment of performance, shown in the 9th EDF NIP Framework of Intervention for the focal sectors, have been under a constant review during the implementation of relevant activities. Their relevance and suitability is being assessed, especially when compared to indicators used by other Development partners in similar interventions. Particular attention is being paid to indicators used for the assessment of performance under the budget support operations. Consultations in this case are being held with the Commission HQs.

Indicators for the focal area of transport infrastructure need further refining. This however necessitates the availability of reliable data for the sector. The relevant shortcomings are planned to be addressed in the coming 10th EDF through the envisaged institutional support.

3.7 Donor coordination and harmonisation

Donor coordination primarily takes place in the context of joint Sector Working Groups (SWG), around specific sectors which are critical for poverty eradication, and their sub-groups. Sector Working Groups are often constituted in the context of Sector Programmes, and usually comprise representatives from relevant ministries and development partners, sometimes including non state actors and private sector stakeholders. The overall coordination of donors is organized through monthly Local Donor Group meetings, chaired by the World Bank, and comprising Development Partners Heads of Mission or Heads of Cooperation. Parallel to this, the EU Heads of Cooperation meet regularly, as required. The main fora for political dialogue are the EU Heads of Mission Meetings and the Donor Democracy and Governance Group.

Sector Working Groups which are constituted around a Sector Programme, organize annual (or bi-annual) sector reviews. The results of these reviews inform budget support disbursement decisions.

Concerns have, however, been expressed that the proliferation of coordination fora has led to inefficiency and in some cases to micro-management. With a view to assessing the situation in this respect, a Division of Labour exercise amongst DPs was launched in the second half of 2006. This expertise, carried out in close cooperation with DPs, is expected to draw conclusions on comparative advantages and thus make recommendations for rationalisation of involvement of DPs

in the different sectors. In addition, it will examine the current SWG structure with a view to streamlining it. It is envisaged to have this exercise completed by end-2007.

3.8 Dialogue in country with the NAO and non-State actors

The NAO and the Delegation meet on a monthly basis, on a technical level, to review the ongoing cooperation and to deliberate on issues affecting progress. From 2007 and onwards, it is planned to have quarterly meetings at a more political and strategic level, during which programming issues and general orientation aspects can be dealt with. Regular project-specific meetings between Delegation staff and their counterparts in the NAO's office are also taking place. A new structure of support to the NAO's office has been put in place and became fully operational by mid-2006, aiming at providing, in particular, assistance on matters of procurement, tendering, contracting, and payments. The NAO/Delegation dialogue is also assisted by their mutual participation in steering committees of all main projects along with other stakeholders including in many cases CSOs.

In Uganda, the Civil Society Steering Committee (CSSC) provides a structured forum for civil society dialogue and consultation in the context of the 9th EDF Civil Society Capacity Building Programme. Beyond its role as a decision making instrument in this programme, the existence of a representative Civil Society Steering Committee gives the opportunity to formulate interests of Civil Society in a more coordinated manner, and to have a legitimate counterpart for government institutions, and donors, when discussing policy matters and increased involvement of civil society in decision making processes. The CSSC participates in the steering committees of 9th EDF governance programmes (i.e. Support to Decentralisation, Human Rights and Northern Uganda Rehabilitation Programmes).

Dialogue with the private sector primarily takes place through the apex bodies which are supported by the EC, such as the Private Sector Foundation Uganda (PSFU) and the Secretariat for the Competitiveness and Investment Climate Strategy (CICS). The PSFU is represented in the steering committees of relevant EC-funded projects. Currently, competing investment initiatives and the lack of agreed strategic direction undermine the commitment by some stakeholders. However, there is emerging consensus on a strategy to increase the commitment towards making the MTCS the focal point for the Public Private Partnership dialogue.

4. Conclusions

On the basis of the analysis in the previous chapters, the overall assessment on Uganda for the year 2006 is summarized as hereunder:

Key political, economic, social, and environmental developments

After 20 years of a "no-party" policy, year 2006 saw elections under the multi-party system. Also, the Presidential elections of February 2006 saw the re-election of President Museveni. The process of decentralization is advanced, however the challenge of securing adequate financial resources remains. Peace negotiations to resolve the armed conflict in Northern Uganda were launched in July 2006, with the hope that they will be successful. The EU's political dialogue with Uganda, as provided for under the Cotonou Partnership Agreement, was given a new impetus in 2006. Finally, progress was also achieved in the regional integration process with the notable decision of the three EAC founding members to admit Rwanda and Burundi.

The national economy has sustained its growth at reasonably high level during 2006 despite significant challenges, including the energy crisis. The economy proved robust in the face of shocks. Macro-economic stability has been maintained. The good performance of the economy has vindicated the private sector-led economic model that Uganda has pursued in the last 20 years. The continuation and consolidation of structural and public service reforms remain a challenge, as also does the fight against corruption. Budget discipline needs to be maintained and to minimize domestic arrears accumulation. To sustain economic growth, there is need for substantial investments in road transport infrastructure and energy. Finally, to consolidate peace in the North there is need to achieve economic recovery through the allocation of significant budgetary resources.

The steady growth of the economy, and the adherence to PEAP, had positive results in the fight against poverty. The number of Ugandans living below the poverty line was further reduced in 2006 to 31% from 39% in 2002, and 56% in 1992. However, significant regional disparities need to be addressed. Whereas progress was registered in the primary school enrolment rate, the primary completion rate has deteriorated. Access of the poor to health services has improved during 2006. Concerning the objective of attaining the MDGs, progress has been registered, although more efforts are required in order to reduce child mortality and to improve maternal health. Finally, the HIV/AIDS epidemic continued to be effectively contained in Uganda.

In the environmental front, visible consequences of climate changes are present on Lake Victoria, whose diminishing water level affects adversely the energy situation in the country. Continuous pressure on forest resources, due to encroachment and degazettment, aggravate land degradation and pose a real threat to fisheries resources. Encouragingly, civil society organizations active in the environment field, have been effective in mobilizing public support for the preservation of natural resources in the country.

Progress achieved in poverty reduction

Budget allocations for poverty related expenditures have remained high, with spending of the Poverty Action Fund (PAF) allocations for 06/07 representing 35.7% of total expenditures (excluding interests) demonstrating the on-going commitment of Government and Development Partners to fund these expenditures. Some concerns however have been by raised by the latter regarding the long-term fiscal sustainability of the new Universal Secondary Education.

Preliminary results of the 2005/06 Uganda National Household Survey show evidence of continuing impact of these public resources allocation on poverty. The survey reports in particular a continuation of the declining poverty trend recorded in the 1990s, with the poverty rate falling to 31% from 38.8% recorded in 2002/03. This is equivalent to a decline in the absolute number of poor people from almost 10 million in 2002/03 to 8.4 million in 2005/06. Inequality has also been trending down with the Gini coefficient falling from 0.43 in 2002/03 to 0.41 in 2005/6. However, important regional disparities remain with considerably higher poverty levels in Northern and Eastern Uganda.

The outcomes of public spending on specific social indicators have been less positive. Universal Primary Education has seen an increase in enrolment of pupils, but a decrease in the quality of education. The primary school completion rate has dropped from 56% in 2002/03 to 48% in 2006. Also, results in Primary Health Care have been uneven with a number of targets not met. Annual HIV/AIDS new infection and prevalence rates amongst a number of at risk groups are rising again. Access to safe drinking water is no longer improving (68% of households were reported as having access to safe drinking water in 2005/06, the same as in 2002/03). Budget support disbursements for 2006/07 reflected these mixed outcomes with the €21.75 million variable tranche (mainly determined by education and health outcomes indicators) reduced.

Uganda continues to register the second highest population growth in the world (3.6%), with more than 50% of the population under the age of 15 years.

Regarding the regional distribution of public resources to fight poverty, preliminary indications from a Public Expenditure Review for Northern Uganda suggest that actual transfers to the North are larger than previously anticipated, amounting to approximately 4.3% of GDP in 2006/07. This represents an increase of 18% on average per annum since 2003/04 with the fastest increase in off-budget project support from donors (through UN agencies and NGOs). Despite the resource flows, Northern Uganda continued to show the highest poverty incidence (in 2005/06 60.7% compared to the national average of 31%).

Efforts in the refinement of indicators to measure performance in focal sectors

Under the EC-funded operations in the areas of macro-economic support, road transport infrastructure, and rural development, an exercise in reviewing the relevant indicators has been going on. Efforts were made to refine these indicators in order to measure better the performance of these sectors. Regular consultations in this respect were held between the Delegation, the NAO's office, and the line Ministries / Departments concerned. Advice from the Commission HQs,

especially regarding indicators under the macro-economic support operation, was sought and obtained. Inputs from other Development Partners, where relevant, were used. Also, mid-term reviews and/or ex-post evaluations of EDF projects in these main sectors were asked to look at the relevant indicators and make recommendations as appropriate.

The lessons learnt from this exercise are being taken into account in the design of similar projects, and indeed in the drafting of the Framework of Interventions for the focal areas of the 10th EDF CSP/NIP for Uganda.

Results in focal sectors and relevant programmes

Good progress with global commitments had been achieved by 31.12.2006, as illustrated in the Annexes to this Report detailing the financial situation of the 7th, 8th, and 9th EDFs. The agreed use of balances from decommitments should be fully fulfilled in the first quarter of 2007.

Forecasts of individual commitments were surpassed due to the regularization of the situation with the individual commitments under the General and Sector Budget Support operations. Payments lagged behind due to slower than anticipated progress in the implementation of the main road infrastructure projects, and also due to delays in fully meeting the conditions for the releases of tranches under the GBS and SBS operations.

In the main 9th EDF project, i.e. the Kampala-Mbarara Road, the tender for procurement of the required consultancy services was launched in late 2006, whereas the tender for the works was planned to be launched in the first quarter of 2007.

The Kampala By-pass Road project continued to present challenges. Due to long disputes on a number of claims, the two Contracting Parties agreed and mobilized, in July 2007, a Consultant who made recommendations for an amicable settlement. Whereas the Government indicated its willingness to fulfill its obligations under this settlement, it was doubtful that the progress of works would improve significantly without the Contractor mobilizing substantial additional manpower and plant resources. As a result of these difficulties, the contractual time for completion by November 2006 was not met.

The new Backlog Roads Maintenance Project was approved in late 2006. Its implementation was expected to commence by mid-2007.

Institutional reforms in the road transport sector continued during 2006. An important milestone was reached when the new Uganda National Roads Authority was established.

The Forestry Project (8th EDF) and the PMA (9th EDF) continue to show positive signs. There were indications that these projects were stimulating economic growth in the rural areas through planned multi-sectoral interventions. Substantial contributions were made during 2006 to agricultural research, as well as to marketing and natural resources management. Good progress in addressing cross-cutting issues was also achieved.

On budget support operations there is evidence that they contribute towards strengthening budget processes, and also strengthening macro-economic management. Moreover, there is also evidence that they contribute positively to the fight against poverty. In addition, they provide an appropriate vehicle for Development Partners coordination, which could lead to a framework for joint assessments and operations, thus respecting relevant undertakings under the Paris Declaration commitments.

Good progress has been achieved in EDF interventions in support of Civil Society, and in providing much needed services in the north. With the full mobilization of management structures for the new EDF-financed programmes in the North by late 2006, it is reasonably expected that the effectiveness and impact of these interventions will be significantly enhanced during 2007.

Involvement of NSAs, Parliament, and Local Authorities

A corner stone of the EC cooperation in the governance field in Uganda is the partnership with Civil Society, the Parliament, and local Authorities. Continuous consultations are ensured through the Human Rights, the Support to Decentralisation, and the Civil Society Capacity Building programmes. These projects provide a framework for support and dialogue on the EC/Uganda cooperation. During 2006, this dialogue, especially with the civil society, focused on the EU-Africa Strategy, the 10th EDF Programming, and the EPA negotiations. Also, consultations with local

authorities, especially in Northern Uganda, were an integral part of the programme design of the 9th EDF Northern Uganda Rehabilitation Programme. The cooperation with Parliament focused on strengthening a framework for multi-party democracy.

EU Member States coordination, and Development Partners harmonization

EU MS represented in Uganda meet regularly with the Delegation of the Commission at two levels: the Head of Missions level, and the Head of Development Cooperation level. Other meetings in the context of aid coordination and in the framework of sector working groups also take place, involving other development Partners (DP).

Particular emphasis during 2006 has been accorded by the Heads of Cooperation to matters pertaining to the drafting of the Country Strategy Paper and the National Indicative Programme under the coming 10th EDF. Other DPs were briefed of the thrust of the EC's proposed assistance to Uganda for the period 2008 – 2013, which aims inter alia to better effectiveness and lasting impact through concentration in a limited number of sectors and better coordination, and through enhanced ownership by the Government.

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ANNEX I. Country at a glance

People 2005	2000	2004	
Population, total	24.3 million	26.9 million	27.8 million
Population growth (annual %)	3,1	3,4	3,5
Poverty headcount ratio at national poverty line (% of population)	33,8	37,7	..
Life expectancy at birth, total (years)	45,1	47,8	48,9
Fertility rate, total (births per woman)	7,1	7,1	7,1
Mortality rate, infant (per 1,000 live births)	85	..	80,2
Mortality rate, under-5 (per 1,000)	145	..	137,8
Births attended by skilled health staff (% of total)	39	..	..
Malnutrition prevalence, weight for age (% of children under 5)	23	..	..
Immunization, measles (% of children ages 12-23 months)	61	82	91
Prevalence of HIV, total (% of population ages 15-49)	..	6,8	..
Primary completion rate, total (% of relevant age group)	..	61,1	57,1
School enrolment, primary (% gross)	127,3	134,2	125,4
School enrolment, secondary (% gross)	15,9	18,8	18,6
School enrolment, tertiary (% gross)	2,5	3	3,4
Ratio of girls to boys in primary and secondary education (%)	92,8	96,7	97,1
Literacy rate, adult total (% of people ages 15 and above)	..	..	66,8
Environment			
Surface area (sq. km)	241.0 thousand	241.0 thousand	241.0 thousand
Forest area (sq. km)	40 590,00	..	..
Agricultural land (% of land area)	62,3	63,2	..
Improved water source (% of population with access)	..	..	60
Improved sanitation facilities, urban (% of urban population with access)	..	..	54
Economy			
GDP (current US\$)	5.9 billion	6.3 billion	6.8 billion
GDP growth (annual %)	5,6	4,4	5,6
GDP per capita, (current US\$)	260	230	250
Inflation, GDP deflator (annual %)	3,8	10	6,1
Agriculture, value added (% of GDP)	37,3	32,4	32,2
Industry, value added (% of GDP)	20,3	21,2	21,2
Services, etc., value added (% of GDP)	42,4	46,4	46,6
Exports of goods and services (% of GDP)	11,2	12,4	13,7
Imports of goods and services (% of GDP)	23	26,6	27,5
Gross capital formation (% of GDP)	20	20,5	22,5
Revenue, excluding grants (% of GDP)	24,4	33,7	..
Cash surplus/deficit (% of GDP)	-2	-3,8	..
States and markets			
Time required to start a business (days)	..	36	36
Military expenditure (% of GDP)	2,3	2,5	2,5
Fixed line and mobile phone subscribers (per 1,000 people)	7,8	31,2	44,4
Roads, paved (% of total roads)	..	23	..
Global links			
Merchandise trade (% of GDP)	33,7	28,8	32
Net barter terms of trade (2000 = 100)	100	90,3	87,8
Foreign direct investment, net inflows (BoP, current US\$)	161.0 million	202.0 million	222.0 million
Long-term debt (DOD, current US\$)	3.1 billion	4.2 billion	4.5 billion
Total debt service (% of exports of goods, services and income)	7,8	7,2	6,9
Official development assistance and official aid (current US\$)	819.4 million	977.0 million	1.2 billion 347.0 million
Workers' remittances and compensation of employees, received (US\$)	238.0 million	285.0 million	..

Source: World Development Indicators database, April 2006

ANNEX II. Table of key economic data

	2003/04	2004/05	2005/06	2006/07	2007/08
	Act.	Act.	Act.	Proj.	Proj.
GDP and prices (percent change)					
Real GDP	5.7	6.7	5.4	6.2	6.5
Headline inflation (average)	5	8	6.6	5.8	4.2
Underlying inflation (average)	5	4.7	5.2	6.1	4
External sector (percent change)					
Terms of trade	5.7	1.9	18.2	-0.6	-4.6
Real effective exchange rate	-8.5	11.3	-1.3	...	...
Money and credit (% change)					
Domestic credit	-5.8	-4.8	7.2	2.9	6.5
Credit to the central Government	-12.9	-10	-4.8	-7.4	-4.3
Private sector credit	19	13.9	28.3	22.9	22
Savings and investment (% GDP)					
Domestic investment	22.3	21.1	23.1	24.7	25
Public	5.2	4.5	4.4	5.6	5.3
Private	17.1	16.6	18.7	19.2	19.7
National savings (excluding grants)	11.3	10.6	13.2	12.1	11
Public	-5.5	-3.9	-3	-3.3	-2.6
Private	16.8	14.5	16.3	15.3	13.6
External sector (% GDP)					
Current account balance (incl. grants)	-1.2	-2.1	-4.1	-5.7	-8.5
Net donor inflows donor inflows	11.4	8.9	8.4	9.9	8.3
Current account balance (excl. grants)	-11	-10.6	-9.9	-12.7	-14
External debt	60.6	50.7	43	15.7	16.9
External debt-service ratio 3/ 4/	10.1	9.8	5.6	4.3	4.1
Government budget and debt (% GDP)					
Revenue 5/	12.7	12.8	13.2	13.6	14.1
Grants	9	7.9	6.6	6.6	5.1
Total expenditure and net lending	-23.3	-21.3	-20.6	-22.3	-22
Overall balance (including grants)	-1.7	-0.6	-0.9	-2.2	-2.8
Overall balance (excluding grants)	-10.7	-8.5	-7.5	-8.8	-7.9
Stock of domestic debt	9.6	9.8	9.1	7.7	6.1
Memorandum items					
Nominal GDP (billions of Uganda Shillings)	13,190	15,176	17,234	19,307	21,374
Average exchange rate (UGX per US\$)	1,935	1,738	1,825	...	...
Treasury bill yield (%)	14.1	8.5	7.8	...	...
Overall balance of payment	211	240	251	194	81
(months of next year's imports of g & s)	5.8	5.6	5.3	5.3	5.2

Sources: Ugandan authorities and IMF staff estimates and projections

1/ Fiscal year begins in July

2/ % M3 at start of the period

3/ % exports of goods and non factor services

4/ Including Fund obligations

5/ Including unidentified revenue measures in 06/07 and 07/08

Table of Macroeconomic Support Indicators and Targets

Targets/ Objectives / Results	Performance Indicators	Sources of Verification	Targets 2005/06	Status 2006	Targets Longer term	Assumptions / Risks
<i>Long-term targets:</i>						
Sustainable poverty reduction in all the country	Number of Ugandans living below the poverty line	National Household survey	31%	31.1%	10% (2017)	PEAP remains the political framework in Uganda
	Discrepancies between rural and urban areas in household consumption	National Household survey	N/A	47%		
<i>EU-intervention objectives:</i>						
Macro economic stability	GDP growth rate	Background to the Budget	6.8% 1/	5.3%	7.0% (2017)	International donor community continues to provide external support
	Domestic revenue contribution to the MTEF	Background to the Budget	UGX 2,280.5 bn	UGX 2,241.1 bn - 13.2% GDP 1	18% (2004/05)	
	Average budget deviation	PEFA	N/A	0.8% 2002/03		
Efficient and equitable use of public funds	Weighted average of the absolute percentage deviation between budget and outturns	PEFA		9.1% 2002/03		Spending on defence will remain affordable
	Poverty related sector shares of the budget:					
	- PAF (% discretionary budget)	Background to the Budget	N/A	36% (05/6)	37.9% (04/05)	
An enabling environment for rapid and sustainable economic growth and structural transformation	- PAF (% execution)	BPR	95% 2/	98.8% (04/05)	100%	GoU remains committed to market oriented economy and privatisation of state owned enterprises
	Private investment share of GDP	BoU economic reviews	N/A	18.7%	sub-Saharan average (2005)	
Outward oriented trade policies	Export of goods and service in value	MoFPED/UBOS	USD 1 bn (2006)	USD 877.4 million (05/06)	N/A	GoU remains committed to the peace process and regional integration
<i>Expected results:</i>						
Improve service delivery through cross-cutting reforms	Primary school net enrolment	National Household survey; EMIS	90.6%	91.70%	100% (MDG 2015)	PEAP priorities remains the overarching GoU document for PRS Implementation of public service reforms
Improved quality of education	P7 completion rate (Proportion of children taking Primary Leaving Exam. Over graduating age pop.)	UDHS	50.0%	48%		
	Under 5 mortality rates (per 1,000 children)	UDHS & UN	N/A	140 (2003)	103 (2005) 56 (MDG 2015)	
Improved quality of health care provision	Maternal mortality	UDHS & WDI (WB)	N/A	567 (2000/03)	354 (2005) 131 (MDG 2015)	
	Proportion of births supervised by skilled health worker	UDHS, MoH & WDI (WB)	38% (2005/06)	42.1% (UDHS 2006)	45% (2005) 90% (MDG 2015)	
Access to safe water & sanitation	Rural access to safe water	DWD, MoWLE& WDI (WB)	61% (2004)	52% (2002)	65% (2005)	
Increase in real incomes	Real annual per capita growth rate GDP at market prices	IMF	2.8% (2005)	2.5%		
	Real annual per capita growth rate Private consumption	National Household survey 2005/06	3.7%	3.7% (2002/03 – 2005/06)		

1/ Government objective stated at Budget speech, June 2005.

2/ Year-on-year PRSC agreement with GoU and EC variable tranche performance indicator.

III. Table of indicators for the 1st focal sector

Target/objectives/results	Performance Indicators	2002	2003	2004	2005	2006	Target
To support economic and social development, alleviate poverty, and promote regional integration	Increase of traffic volumes of agricultural and industrial goods						
A safe and sustainable road network.	Reduction in travel time, vehicle operating costs, and transport prices (freight tariffs and passenger fares)						
Improved conditions of the national road network	National roads in good condition	18%	30%	20%	20%		40% end-2010
	National roads in fair condition	56%	52%	62%	62%		55% end-2010
Strengthened road management (e.g. monitoring of road condition & axle load control, planning and prioritization of road works) and improved road safety	UNRA fully operational					Act principles approved	End-2007
	Road Fund fully operational						By FY 2009/10
	MoWT reform						Completed end-2011
	Revision of RSDP					Study launch	Approval end-2008
	No of fatal accidents reduced	1,587	1,658	1,795			2004 level by end-2010

ANNEX IV: Table of indicators for the 2nd focal sector

Achievement of the 2006 indicators

Indicator: number of districts and sub-counties participating in the NAADS programme
Target: 37 Districts, 344 sub-counties
Achievement: 49 Districts, 344 sub-counties
Comments: The target was met for the sub-counties, and overshoot for the number of Districts. The latter was due to the increase in the number of districts through the sub-division of existing districts. The increased number of districts has put additional financial and logistical strain on the NAADS programme, as it requires more district capacity building and logistical support. The overall funding for NAADS under the MTEF was largely according to expectations.

Indicator: NARS Council established and fully operational
Target: June 2006
Achievement: Appointed in January 2006, and operational in the same month
Comments: The target was met. The Council has taken a number of key decisions with respect to the implementation of the reform process and the establishment of the NARS. In particular the establishment of the NARO- Council Secretariat, the appointment of key staff in the NARO-C Secretariat, and the granting of autonomy to public Agricultural Research Institutes per July 1st 2006 were critical and positive steps in the ongoing reform. It is expected that by July 2007 the NARS reorganisation will have been concluded.
The overall GoU MTEF projections for NARO are lower than expected and required, and are a reason for concern.

Indicator: percentage of research funds channelled through a competitive grant scheme
Target: 15%
Achievement: 11%
Comments: The target was partially met while next year's projection of 18% is above the current target. The lower target can be explained by the complexity of the CGS, and the resulting longer than expected start-up time. In that light the achievement is better than expected, and the expected increase for FY 07/08 indicates that the CGS is well underway. We propose therefore to accept the slight under achievement on this particular target.

2007 targets

Indicator: number of districts and sub-counties participating in the NAADS programme
Target: 64 Districts, 517 sub-counties
Comments: The target is fully depending on the sufficient and timely release of GoU funds to the participating sub-counties during the current FY, and is a valid measurement of the progress on the NAADS programme

Indicator: Further operationalisation of the NARS
Target: Appointments of Director general and PARI Directors, establishment of NARS base-line data, and further roll-out of the Competitive Grant Scheme.
Comments: The targets are relevant and a clear indication of a reform process reaching its logical conclusion. In particular the establishment of base-line data may be difficult to achieve in full by July 07.

Indicator: percentage of research funds channelled through a competitive grant scheme
Target: 18%
Comments: Increased funding for the CGS is a critical element of the NARS reform process. The target is high as compared to this year's achievement.

ANNEX V. Financial situation of the 9th EDF

By the end of the period under review, out of the total of €270,714,446 available under the A-envelope, the amount of € 266,992,881 was decided upon (i.e. 98.5%). Of the decided amount, €142,456,208 was contracted (i.e. 53.4%), and of the contracted amount €63,041,386 was disbursed (i.e. 44.4%). A total of 17 projects were open, of which 2 under closure.

Based on the forecast of decommitments, and in accordance with the conclusions of the End-of-Term Review, it was agreed to include in the pipeline for 2007 one new project (i.e. the TCF of an amount of €4.0 million), and two Riders to existing Financing Agreements increasing their funding: (a) Kampala Northern Bypass Road (€5.0 million), and (b) Technical Assistance to RAFU (€2.0 million). The required documentation for these three actions was planned to be submitted to AIDCO during the first quarter of 2007.

Furthermore, it was planned during 2006 to continue with closures and decommitments due, thus releasing funds to the Long Term Reserve of the 9th EDF. Around €2.0 million were estimated to be made available under this activity. This amount may be increased depending on the final amount of the 2nd variable tranche under the General Budget Support project.

The following projects are the main on-going ones under the A-envelope:

1. Pr. 9 UG 01 – Support to Feasible Financial Institutions

Allocation: €2,514,107

Contracted: €2,514,107

Disbursed: €1,412,499

2. Pr. 9 UG 04 – Civil Society Capacity Building

Allocation: €8,000,000

Contracted: €7,832,512

Disbursed: €3,052,443

3. Pr. 9 UG 05 – Support to Commercial Justice Reform

Allocation: €1,950,000

Contracted: € 874,000

Disbursed: € 435,920

4. Pr. 9 UG 06 – technical Cooperation Facility

Allocation: €3,800,000

Contracted: €2,254,692

Disbursed: €1,644,018

5. Pr. 9 UG 09 – Technical Assistance to RAFU

Allocation: €1,999,500

Contracted: €1,859,735

Disbursed: € 659,384

6. Pr. 9 UG 10 – Reconstruction of Priority Sections in the Kampala-Mbarara Road

Allocation: €87,000,000

Contracted: 0

Disbursed: 0

7. Pr. 9 UG 12 – Sector Budget Support to PMA

Allocation: €17,500,000

Contracted: €17,500,000

Disbursed: € 5,690,000

8. *Pr. 9 UG 14 – 5th Poverty Alleviation Budget Support*
 Allocation: €92,000,000
 Contracted: €87,494,466
 Disbursed: €47,275,425
9. *Pr. 9 UG 15 – Support to Decentralisation*
 Allocation: €10,000,000
 Contracted: €1,464,410
 Disbursed: € 342,633
10. *Pr. 9 UG 17 – Human Rights and Good Governance Programme*
 Allocation: €7,000,000
 Contracted: € 689,109
 Disbursed: € 119,964
11. *Pr. 9 UG 18 – Strengthening of Northern Corridor Route (Jinja-Bugiri Road)*
 Allocation: €19,000,000
 Contracted: €19,000,000
 Disbursed: € 1,859,422
12. *Pr. 9 UG 19 – Mid-western Towns Water and Sanitation*
 Allocation: €600,000
 Contracted: €391,000
 Disbursed: 0
13. *Pr. 9 UG 21 – Mid-Western Towns Water and Sanitation*
 Allocation: €2,909,973
 Contracted: €2,899,911
 Disbursed: €1,198,356
14. *Pr. 9 UG 23 – Backlog Roads Maintenance*
 Allocation: €15,000,000
 Contracted: 0
 Disbursed: 0

Concerning the B-envelope, the total amount was further reduced as a result of the End-of-Term Review to €38.6 million. This amount was allocated to one EDF project of €20.0 million (i.e. the Northern Uganda Rehabilitation Project), and to four ECHO operations (for the balance of the funds). As has been outlined in the present report, the EDF project was in full implementation by the end of 2006. Of the four ECHO projects one was closed.

ANNEX VI. Financial situation for the 8th EDF

At the end of 2006, there were twelve (12) EDF projects at various stages of their implementation. Their total global amount was €192,702,284 out of which the amount of €177,953,583 had been contracted (i.e. 92.2%). Of the contracted amount disbursements totalled €139,747,051 (i.e. 78.7%).

Of these EDF projects, six (6) were under closure, leaving the following six (6) active projects:

1. Pr. 8 UG 23 – Poverty Alleviation Budgetary Support

Allocation: €19,300,000

Contracted: €19,284,796

Disbursed: €18,763,505

2. Pr. 8 UG 30 – Forest Resources Management and Conservation Programme

Allocation: €12,000,000

Contracted: €11,553,346

Disbursed: €9,917,319

3. Pr. 8 UG 31 – Strengthening of the Northern Corridor Route (Jinja-Bugiri)

Allocation: €36,600,000

Contracted: €33,405,669

Disbursed: €11,114,028

4. Pr. 8 UG 35 – Human Resources for Health

Allocation: €17,000,000

Contracted: € 6,894,842

Disbursed: € 3,078,243

5. Pr. 8 UG 37 – Sustainable Tourism Development Programme

Allocation: €3,700,000

Contracted: €3,683,940

Disbursed: €2,449,677

6. Pr. 8 UG 40 – Kampala Northern Bypass Road

Allocation: €41,000,000

Contracted: €40,746,000

Disbursed: €24,612,461

ANNEX VII. Financial situation of the 7th EDF

By the end of December 2006, there were ten (10) open projects, of which only one was on-going. The other nine (9) were under closure procedures, after having been subjected to decommitment procedures in order to make funds available for new 9th EDF operations.

Project 7 ACP UG 89 – Mid Western Towns Water and Sanitation

Allocation: €8,282,111

Contracted: €8,088,061

Disbursed: €7,513,539

The implementation period of this project was extended to 31.8.2007 in order to allow the achievement of its objectives. Also, its total funding was increased by €600,000 from resources of the 9th EDF.

It was planned to have all 7th EDF projects virtually closed by 31.12.2007.

ANNEX VIII. Regional Projects

Pan African Programme for the Control of Epizootic (PACE): Initial support was € 4.2 million 09/2000 – 10/2004. Present support 1/2005 – 12/2007, under STABEX, is € 1.2 million.

PACE was developed to reinforce animal disease control capacity and animal health care delivery as well as to safeguard animal health in the country against major diseases. Main activities during 2006 comprised:

- Providing support to rinderpest surveillance in livestock and wildlife, which has resulted in indications of a sero-positive rate of only 0.28%. Consequently, a dossier requesting for Uganda to be declared free from rinderpest was submitted to the OIE and the country was subsequently declared free from rinderpest disease in 2006.
- Supporting the provision of vaccines for various major livestock disease outbreaks of Contagious Bovine Pleuro Pneumonia (CBPP) and Foot and Mouth Disease (FMD).
- Supporting animal disease reporting from the districts and mapping of major livestock routes.
- Supporting the National diagnostic laboratory in Entebbe with various test kits, equipment and consumables, and staff training.
- Carrying out a review of veterinary laws as well as supporting the privatisation of veterinary services through the Uganda Veterinary Association and the Community Animal Health Workers.
- Supporting the surveillance, and attending appropriate international conferences on Avian Flu.
- Providing loans to 22 private practices in order to improve delivery of veterinary services
- The rider to the regional financial agreement came to an end in December 2006. Furthermore, the project received a rider to the STABEX Channelling Agreement that allowed it to re-allocate funds and extend the implementation period for a further 6 months up until December 2008.

Farming in Tsetse Controlled Areas (FITCA): Initial support of €3.2 m under 7th EDF (regional) and € 1.6m (national). Present support is € 1.6m under STABEX

The overall objective is to contribute to improved human health and livestock productivity of the population by having a sustainable approach to tsetse flies and sleeping sickness control.

The Ugandan component of FITCA is being implemented by MAAIF (in collaboration with MoH) and covers 12 districts in the south eastern region. Its emphasis is on determining the extent of tsetse, and sleeping sickness establishing integrated control measures; introducing appropriate agricultural practices; and strengthening sustainable control of tsetse and trypanosomiasis. Main activities during 2006 comprised:

Continued tsetse control through use of more than 10, 000 traps and live baits; provided more than 70 cross bred cows in protected zero grazing units in collaboration with NGOs; established 12 FAO type farmer field schools as part of an improved extension service package in the project area; and continued introducing appropriate farming practices, in addition to carrying out capacity building.

Analysed information was used to generate risk maps and reports, which were distributed for use for policymaking and implementation of activities by farmers. Tsetse surveillance/monitoring were carried out in 800 fixed monitoring sites.

Implementation of the Fisheries Management Plan (IFMP) for Lake Victoria (€ 29.9m)

The project's objective is to contribute to sustainable economic growth, resource use and development in the Lake Victoria basin by assisting Uganda, Kenya and Tanzania to implement a fisheries Management Plan in line with the LVFO strategic vision (1999 – 2015). The PIU is located within the LVFO Secretariat based in Jinja and is composed of 6 long-term TAs and local recruited staff within the region. Main activities during 2006:

- Providing support for an LTTA team of 6 experts in fisheries management, fisheries resource monitoring, community development, human resources, vessel management and appropriate ISTTA as and when required.
- Supporting a PIU with offices and equipment to provide assistance to the 6 institutions in addition to the regional meetings
- Carried out a mi-term review that recommended the extension of the implementation period for 24 months and carrying out budget re-allocations in the financing agreement.
- Built institutional linkages with the districts around the lake as a part of the establishment and training of 1,087 Beach Management Units during which 532 local government officers were trained and used as change agents.
- Renovations of four out of the six fisheries institution in the 3 states were completed.
- As a result of establishing Standard operating procedures in resource monitoring, surveys indicate that the annual catch of Nile perch was 254,000 metric tonnes against an estimated stock of 950,000 metric tonnes.
- Surveillance done, resulting in destruction of illegal nets and boats and immature fish.

Cross cutting issues: The project carried out a review of access to banking facilities to form potential interventions to strengthen access to, and use of, banking facilities by the BMU, and the drafting of a LVFO strategy to address HIV/AIDS in fishing communities.

Regional Programme to Support Agricultural Research in East Africa (€29.3m)

The Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA) is an organisation of the National Agricultural Research Systems in ten countries in the region. ASARECA receives support from a number of development partners, of which the European Commission is the largest. Under FA 8 ACP ROR 014, € 29.3 million was allocated to the Regional Programme to Support Research in East Africa (RSP). Due to its slow start the RSP was extended up to 2007.

In 2005 the new simplified implementation mechanism under a Grant Contract started to bear fruits. The administrative burden to ASARECA and the EC Delegation reduced greatly, and spending levels went up. The first call for a Competitive Grant Scheme (CGS) under a separate Grant Agreement was successfully launched and a number of projects are underway, while the second call is in preparation.

In early 2005 a mid-term review concluded that after a slow start the project is well underway. It recommended an extension of the TA contract to cover the full period of the FA; rationalisation of the networks and consolidation of the ASARECA and networks logical frameworks. A follow-up consultancy did the latter in August and September, while by the end of the reporting period a rationalisation consultancy has started.

ANNEX IX. STABEX Funds

The total STABEX funding approved for Uganda to date, including interest, amounts to €218.4 million. By the end of 2005, the amount of €203.6 million had been allocated to projects through Channelling Agreements, of which €202.9 million had been contracted and €170.3 million had been disbursed. During 2005, five new Channelling Agreements were signed, 4 from STABEX 1999 and 1 under STABEX 1992. Riders were signed for all the active FMO's to include the programming of interest earned. Preparations are under way for the commitment of the balance of STABEX funds during 2006.

Of the total STABEX 1999 allocation of €34.5m, an amount of €14.48m was transferred to the joint signature account with Citibank. The following new Channelling Agreements were signed during the year:

- SX99/12 - Support to the National Agriculture Research Organisation (€1.57m)
- SX99/13 – TA to the Plan for Modernisation of Agriculture - NAADS (€2.5m)
- SX99/14 – Support to the Medium Term Competitiveness Strategy – MTCS (€0.7m)
- SX99/15 – Private Sector Orientation of the Uganda Wildlife Authority (€1.5m)

Good progress was achieved in the implementation of the projects previously committed with disbursements amounting to over €6 million.

The FMO for 1995, 1993 and 1st Protocol, now has an allocation of €63.8million, of which €62m or 97.2% has been committed to Channelling Agreements, and contracts are in place for almost 98% of this amount. There were no new Agreements, under this FMO, signed during 2005. €9.1 million was disbursed during 2005 bringing the total disbursement to €51.4 million, equivalent to 85% of the amount contracted. The main active project under this FMO during 2005 was the construction of the Kagamba-Rukungiri Road, which was substantially completed by the end of the period under review.

Of the €31m euro allocated under the STABEX 1992 FMO, over 97% has been allocated to Channelling Agreements, of which 99% has been contracted and 93% has been disbursed. The main active project under this FMO is the Rehabilitation of the Kampala-Malaba Railway line, which is making good progress and should be completed in 2006. Following de-commitments it is estimated that there will be a balance of approximately €1 million available for new projects.

Of the total allocation, for STABEX 1991, of €42.9m, 95% of the funds have been allocated to Channelling Agreements, contracted and disbursed. The only active project during 2005 was an appraisal of EC's Support to Decentralisation. A balance of approximately €2 million remains for new projects.

Of the total allocation of €46.1m under the 1990 FMO, 99% of the funds have been allocated to Channelling Agreements, contracted and disbursed. There are no active projects under this FMO. A small balance of approximately €0.4 million remains for new projects.

The summary situation of the STABEX funds is shown in the attached table.

Summary of STABEX Accounts and FMOs as at 31st December 2005

STABEX Account	Date FMO signed	Amount allocated	Committed-Channelling Agreements	%	Balance to be allocated	Contracted	%	Balance to be contracted	Disburs
STABEX 1999		31,445,176	31,395,607	99.8	49,569	25,369,611	80.8	6,025,996	4,497,
Interest		3,038,298	0	0	3,038,298	0	0	0	
1999 FMO	25/03/2003	34,483,474	31,395,607	91.0	3,087,867	25,369,611	80.8	6,025,996	4,497,
STABEX 1995		430,212	430,000	100.0	212	395,246	91.9	34,754	376,
Interest		111,537	69,360	62.2	42,178	69,360	100.0	0	69,3
STABEX 1993		46,247,763	46,124,831	99.7	122,932	45,192,377	98.0	932,454	38,292,
Interest		15,170,534	13,626,318	89.8	1,544,216	13,126,602	96.3	499,716	10,943,
STABEX 1 st Protocol		1,588,000	1,558,892	98.2	29,108	1,558,892	100.0	0	1,558,8
Interest		305,349	232,820	76.2	72,529	232,820	100.0	0	232,8
1993 & 1995 FMO	09/07/1997	63,853,395	62,042,220	97.2	1,811,175	60,575,297	97.6	1,466,924	51,473,8
STABEX 1992		24,338,606	23,840,148	98.0	498,458	23,587,037	98.9	253,111	22,598,2
Interest		6,691,129	6,309,479	94.3	381,650	6,357,120	100.8	(47,641)	5,203,9
1992 FMO	23/11/1995	31,029,735	30,149,626	97.2	880,108	29,944,157	99.3	205,470	27,802,1
STABEX 1991		36,025,013	34,430,275	95.6	1,594,738	34,430,275	100.0	0	34,436,9
Interest		6,872,837	6,379,157	92.8	493,681	6,379,157	100.0	0	6,315,3
1991 FMO	24/06/1993	42,897,851	40,809,432	95.1	2,088,419	40,809,432	100.0	0	40,752,2
STABEX 1990		39,687,319	39,566,847	99.7	120,472	39,566,847	100.0	0	39,562,6
Interest		6,489,219	6,177,687	95.2	311,531	6,177,687	100.0	0	6,177,6
1990 FMO	04/03/1992	46,176,538	45,744,534	99.1	432,003	45,744,534	100.0	0	45,740,3
Total of STABEX		218,440,992	210,141,420	96.2	8,299,572	202,443,030	96.3	7,698,389	170,265

ANNEX X: Overview of EIB's finance operations in Uganda during 2006

The EIB's activities in Uganda in 2006 centred on supporting the development of small and medium sized private enterprises, through long-term finance provided to selected partner banks, which in turn enable the latter to lend out money for five years or longer, at rates of interest fixed for the term of the loan. This was done most prominently through the Bank's fourth Apex-type line of credit, the "Apex Private Enterprise Global Loan IV" (Apex IV).

The EIB's Apex loans, of which the first was signed in 1995, are granted to the Republic of Uganda for on-lending through Bank of Uganda (BOU), either in Shillings or in foreign currency, to selected commercial and development banks. They are funded from risk capital resources under the 4th Lomé Convention and aimed at promoting small and medium sized private sector investment projects in Uganda. The funds are allocated to finance loans of a minimum duration of 5 years, granted by the intermediary banks to private enterprises in the productive sectors of the economy, including (since 2002) education and healthcare. The maximum funding for individual investment projects is 2 M euros. Given the scarcity of long-term funds in the financial markets in Uganda, and private enterprises' need for term finance to carry out their investment projects, the Apex global loans meet with considerable demand. The funds are made available to the Government at an interest rate of 1 % p.a. in cognisance of Uganda's status as a beneficiary of the HIPC debt reduction initiative. They are priced to the intermediary banks in the case of on-lending in Shillings at a local market reference rate computed by Bank of Uganda, increased by a small administrative margin. The spread over the cost of funds to the Government is mainly used to cover losses for the EIB that may arise from potential depreciation of the Shilling against the EUR during the 15-year life of the loan.

The allocation of funds and actual disbursement of Apex IV started in late 2005; at the beginning of the second half of 2006, the credit line approached exhaustion. 59 projects with a total cost of EUR 68 m were financed, contributing to diversifying the Ugandan economy and strengthening investment in human capital. The tourism industry took the lead with 30 % of the number of projects and 30 % of the global amount. Schools follow closely with 29 % of projects and 15 % of the volume. The manufacturing industry took up 28 % of funds for 14 % of the projects. The food processing industry attracted 6 % in terms both of volume and number of projects. The vast majority of the investment projects consisted in enterprise expansion while 8 were for business start-ups. The projects financed resulted in the creation of about 1,400 permanent jobs.

In September 2006 the EIB launched an appraisal for a successor credit line in Uganda under the framework of the Cotonou Agreement. Under this scheme, it is foreseen to establish direct lending relationships between the partner banks and EIB, with the Bank taking the full counterpart and currency risk. Final negotiation of this new scheme is foreseen in the first half of 2007.

In 2006 the Bank also deepened its funding relationship with DFCU Ltd. providing support to leasing operations in favour of many small enterprises in the framework of a credit line for €10 m signed in 2006. In late 2006 the EIB concluded a regional credit line agreement with EADB for funding in foreign currencies, of which part will be allocated to projects and final beneficiaries in Uganda. Implementation will start in 2007.

Future financing support in Uganda is being considered by EIB, in particular for infrastructure investments that are of vital interest to the development of private economic activities in the country. The Bank participated in the appraisal of the Bujagali Hydroelectric Project, a Public Private Partnership venture aimed at substantially enhancing the supply of electricity in Uganda, based on hydro-power. Negotiations are expected to be completed in 2007.

ANNEX XI: Use of counterpart funds

1. STABEX 1990 Counterpart Funds

An amount of UGX 41.4 billion has been received in counterpart funds including interest under the STABEX 1990 Import Programme. Of this amount UGX 36.9 billion has been committed to Channelling Agreements and UGX 30.4 billion has been disbursed. An amount of UGX 4.46 billion (equivalent to approximately €1.9m) remains to be allocated. It has been agreed that of this amount approximately UGX 2.3 billion should be allocated for public financial management reforms under the FINMAP programme.

During 2006, an amount of UGX 2.7 billion was committed to the NAO Support Unit for the period 2007 to 2010. There were no other new commitments during the year. The only other ongoing project as at end of 2006 is the Mengo-Kisenyi water and sanitation improvement project, which is co-financed with SASP counterpart funds. Two Channelling Agreements expired during 2006: the Business Uganda Development Scheme (BUDS) with PSFU and the funding for Audits. Final audits and payments are ongoing to allow closure in 2007. In addition, the Outreach project for Support to promotion of financial services in rural areas has been suspended due to failure to refund ineligible expenditures, for which a Recovery Order has been issued. A decision will need to be taken whether to de-commit the balance of funds under this programme.

During 2006, it was agreed to consolidate the balance of counterpart funds in the Bank of Uganda STABEX account. Funds are also held in Standard Chartered Bank and Bank of Baroda in 4 different accounts. The process of closing accounts and transferring funds was delayed pending the correction of errors on the Bank of Uganda account, which was finally resolved just before the end of the year. A new account was opened specifically for the transfer of budget support funds, to avoid the mixing of these transfers, which has been the cause of the problem for the BOU accounts.

2. SASP II Counterpart Funds

An amount of UGX 4.6 billion in counterpart was received by Uganda under the SASP II programme. These funds have been fully allocated and the balance to be disbursed is just over UGX 1 billion. There is only one ongoing project, which is the Mengo-Kisenyi Water and Sanitation project.

ANNEX XII: Budget Lines

1. Water Initiative

A total of 3 projects were approved under the 1st Call for Proposals of the ACP-EU Water Facility. Implementation of the Mobilizing of Local Private Sector Funding for the Ugandan Urban Water Project, and the Sanitation Sector Water and Sanitation Umbrella Programme (WASUP) began in October 2006 and December 2006 respectively. The preparation of the Financing Agreement for the South Western Towns Water and Sanitation programme continued during 2006. In particular the implementing modalities with regard to the basket / pooled funding were worked out. Signature of the FA is expected in the first half of 2007.

More specifically, the purpose of the first project is to carry out an asset re-evaluation of the National Water and Sewerage Cooperation (NWSC) and to develop an improved investment planning. This will lead to an increased capacity and ability of NWSC to negotiate successfully with the private sector banks on loans. The purpose of the second project is to increase access to safe water and to increase the use of hygienic sanitation facilities in 37 internally displaced persons (IDPs) camps in Kitgum and Pader districts. Due to the recent political developments regarding Northern Uganda (Peace talks GoU/LRA), the situation in Kitgum and Pader Districts has evolved considerably since the project was formulated in 2005. Consequently, a water supply and sanitation needs assessment must be carried out to confirm the activities which must take the return of IDPs to their villages into account. In this context the original purpose of the programme to support water supply and sanitation interventions in 37 IDP camps must be revisited and updated to reflect the current and future needs.

The objective of the South Western Towns Water and Sanitation programme is to improve the economic situation and the quality of life in approximately 75 Rural Growth Centres. The specific objective is to provide access to affordable, safe adequate water supply and sanitation services sustained by effective utility management arrangements. The main activities will comprise the construction of water supply and public ECOSAN facilities, demonstration of ECOSAN at households, and develop capacity to design, implement and manage the various systems. The project will be implemented as a component of the Joint Partnership Fund through which the EC contribution will be channelled.

Under the 2nd Call for Proposals, the Delegation evaluated 32 concept notes of which 11 were regional. Subsequently, the Delegation evaluated 21 detailed proposals. It is expected that a number of them will be approved in 2007.

2. Energy Initiative

Following the launching of the first Call for Proposals under the ACP-EC Energy Facility in June 2006, an information workshop was organised by the Ministry of Energy and Mineral Development in July 2006. It was followed by a technical workshop in September 2006 in order to help in the drafting of proposals for interested stakeholders in the Uganda. The attendance to and publicity for this workshop were good, thus raising national awareness. Many applicants benefited also from clarifications given by the Help Desk of the EC Headquarters particularly on formal requirements and eligibility. Six proposals for national projects and five for regional ones concerning Uganda were received in time. It is expected that their evaluation will be completed in the first half of 2007.

3. Global Fund to fight HIV/AIDS, tuberculosis and malaria (GFATM)

At the end of August 2005, the GFATM grants were suspended due to mismanagement of funds. The GFATM advised the Principal Recipient (i.e. Ministry of Finance) to suspend the Programme Management Unit (PMU) and propose a plan for restructuring of implementation arrangements. The GFATM added that the decision to suspend the funds, and not to cut it, is related to the conviction that the architecture for the management of the funds was not working and eventually the GFATM was confident that it would be possible to work with the Ministry of Finance to rebuild the limping structure. As a temporary measure, a private management

firm, Ernest & Young, took over the role of the Programme Management Unit. The Country Coordination Mechanism was chaired for the interim period by the Permanent Secretary of the Ministry of Finance.

In November 2005 the Global Fund mission decided to lift the suspension. The decision was based on the good work done during the last twelve weeks towards openness and transparency, and the commitment from Ministry of Finance to put in place an interim structure in the short term and institutional arrangements for the long term, to assure the success of the programme.

The Long Term Institutional Arrangements (LTIA) foresees the use of Uganda's existing monitoring and coordination mechanisms. Following the disbandment of the CCM, the Partnership Committee of the Uganda Aids Commission and the Health Policy Advisory Committee of the Ministry of Health will be responsible for managing and deciding the activities of the GF in line with the Health Sector Strategic Plan II and the National Aids Strategic Framework. However, the Long Term Institutional arrangements are not yet fully operational, although efforts are underway, especially by the Partnership Committee and the Uganda Aids Commission.

The LTIA is mainly concerned with contextual issues relating to participation of the Global Fund in the SWAp in Uganda and the possibility of linking with existing national coordination structures, taking into consideration the principles of the Fund; in particular, the issues of additionality and performance based programme funding.

In the past implementation of grants has faced a number of constraints, especially in taking account of the relationship between all partners in the management of the Global Fund activities (Programme Management Unit, Principal Recipient, Local Fund Authority, CCM, Ministry of Finance, Uganda Aids Commission, Ministry of Health and various stakeholders). Substantial progress has been made in putting new systems in place, including the procurement and distribution mechanisms through a third party procurement agent, grant management systems, etc.

4. Environment

Strengthening and Empowering Civil Society for Participatory Forest Management (EMPAFORM)

Summary: The total Programme amounts to €3.5 million, and the EC contribution is €2.8 million. The programme promotes co-management and community-based management of natural forests (collectively referred to as participatory forest management of (PFM). This pro-poor approach to PFM will increase local community control over forest resources and promote more equitable sharing of costs and benefits of forest management and conservation. The project started in April 2005 and will end 31 March 2009.

Results achieved: The grant was signed by CARE Denmark and the implementation is with CARE International in Uganda. The target countries are Kenya, Uganda and Tanzania. The programme that started in April 2005 has made progress in the following areas:

- Relevant information has been disseminated to Community Based Organisations (CBOs) and NGOs at all levels on the legal and policy framework for PFM.
- Networking between community level and second level CBOs has promoted sharing of information and experience on PFM and related issues, and joint action on advocacy and other issues of common interest.
- There is increased capacity of second level CBOs and national NGOs to analyse forest and land tenure policy, to design, implement and monitor advocacy initiatives for PFM policy and decision-making.
- Governance, management, negotiation, fund-raising and networking skills of CBOs has been strengthened.

The donor coordination on environment is done through the Environment and Natural Resources donor group. The group that meets at least once a month is chaired by the Norwegian Embassy and co-chaired by the World Bank.

5. Food Security

Food Security Programme for IDPs and former IDPs in Amuria District

The total amount of the programme is €554,153 and the EC contribution is 498,738. The 3 year programme is implemented by the Interchurch Organisation for Development Cooperation (ICCO) and is aimed at targeting 10,000 households. The project's main objective is 'sustainable food security attained by IDPs and former IDPs in Amuria District. Its main activities will be distribution of seeds and tools, trainings and demonstrations on improved crop production practices, training on improved methods of post harvest handling, establishment of nurseries and mother gardens and trainings and demonstrations on conservation practices. The programme has just started.

Karamoja Livelihood Support Programme

The total amount of the programme is €499,992 and the EC contribution is €450,000. The 18 months project is implemented by VSF Belgium and is aimed at contributing towards achievement of food security for the vulnerable agro-pastoralist population in the intervention areas of Karamoja. The project's main objectives will be to increase food crops production for domestic and surplus for market through sustainable production systems, improve nutritional status of target rural households through training on effective food utilization, increase income in targeted rural households from livestock and food crops enterprises and improve livestock productivity through promotion of access of water resources, animal health services and related inputs. No visible results yet since the project has just started.

Food Security intervention for Karamoja

This is a 3 year project that is implemented by CESVI. The total amount of the project is €620,817 and the EC contribution is €500,000. The main objective is to increase sustainable food security for the poorest section of Uganda's rural population in the areas of intervention in Karamoja region. The main activities will be to select 60 farmers groups followed by the establishment and maintenance of 60 individual cassava multiplication gardens combined with tree nurseries, crop storage technique sensitization and training within farmers groups, renovation/improvement of existing granaries, cassava cuttings distribution and tree seedlings, monthly disbursement of Food for Work and monthly distributions of granary improvement materials.

The Donor Group at technical level for Food Security is chaired by FAO. The Group meets monthly to exchange information and coordinate approaches on interventions in Northern and Eastern Uganda.

6. EIDHR

A local call for proposal was launched in February and information sessions held in three districts of Kasese, Kabarole and Bundibugyo, to explain EC procedures and also go through all the documents that were to be posted on the website. The evaluation of C/Ps was done and five successful micro-projects (NAYODE, AHURIO, RWIDE, KIND-UG and VSO) were selected and contracted to start their activities in 2007.

Five macro-projects BBC, IWPR, MRG, UNHOCHR and Death Penalty were evaluated and contracted by the Delegation. All activities are scheduled to start in 2007.

An external evaluation of the Legal Aid Project (LAP) was done, findings were shared in a workshop and the final report was approved by the Delegation. The Process to close the project was embarked on.

7. Mines action

The Call for Proposals was launched in February 2006, and an information session was conducted in Kampala to explain EC procedures and also to go through all the documents that were to be posted on the website. The evaluation of submissions was done and two successful projects (AVSI Foundation and World Vision UK) were selected and contracted to start their activities in 2007.

Degree of integration of cross-cutting issues: All cross-cutting issues, environment, HIV/AIDS, gender, human rights, equity issues and special consideration of vulnerable groups, were clearly stated in the guidelines of the local Call for Proposals, and strictly followed when scoring during the evaluation of the proposals.

Donor Coordination in the Sector: EIDHR projects are closely linked with the Peace and Conflict, Gender Donor and Human Rights Working groups.

The mines action, in addition to being linked to the Peace and conflict and gender working groups, is also strongly linked with the national mines action operators and coordination group.

ANNEX XIII: Indicative timetable for commitments and disbursements

The forecast for commitments and payments till end-2008 is shown in the attached EXCEL sheets.