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**Government of Uganda
Ministry of Finance Planning
and Economic Development**

**Delegation of the
European Commission**

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ACRONYMS

AAP	ANNUAL ACTION PLAN
ACF	ACTION CONTROL FAIM
ADB	AFRICAN DEVELOPMENT BANK
AFDB	AFRICAN DEVELOPMENT BANK
ASARECA	ASSOCIATION FOR STRENGTHENING AGRICULTUREAL RESEARCH IN EASTERN AND CENTRAL AFRICA
AVSI	ITALIAN NGO
CHOGM	THE COMMONWEALTH HEADS OF GOVERNMENT MEETING
CMCC	CIVIL MILITARY COOPERATION CENTRES
COMESA	COMMON MARKET FOR EASTERN & SOUTHERN AFRICA
COOPI	ITALIAN NGO
CSO	CIVIL SOCIETY ORGANISATION
CSP	COUNTRY STRATEGY PROGRAMME
CUAMM	ITALIAN NGO
DFID	DEPARTMENT FOR INTERNATIONAL DEVELOPMENT
DP	DEVELOPMENT PARTNERS
EAC	EAST AFRICAN COMMUNITY
EAMR	EXTERNAL ANNUAL MANAGEMENT REVIEW
EC	EUROPEAN COMMISSION
ECHO	DIRECTORATE GENERAL FOR HUMANITARIAN AID
EDF	EUROPEAN DEVELOPMENT FUND
EIB	EUROPEAN INVESTMENT BANK
EIDHR	EUROPEAN INITIATIVE FOR DEMOCRACY AND HUMAN RIGHTS
EPA	ECONOMIC PARTNERSHIP AGREEMENT
EU	EUROPEAN UNION
EU-MS	EU MEMBER STATES
FAO	FOOD AGRICULTURE ORGANISATION
FARA	FORUM AFRICAINE POUR LA RECHERCHE AFRICAINE
FDC	FORUM FOR DEMOCRATIC CHANGE
FPA	FINAL PEACE AGREEMENT
FY	FISCAL YEAR
GBS	GLOBAL BUDGET SUPPORT
GDP	GROSS DOMESTIC PRODUCT
GoU	GOVERNMENT OF UGANDA
HRH	HUMAN RESOOURCES FOR HEALTH
ICC	INTERNATIONAL CRIMINAL COURT
ICGLR	INTERNATIONAL CONFERENCE ON THE GREAT LAKES REGION
ICRC	INTERNATIONAL COMMITTEE OF THE RED CROSS
IDPs	INTERNAL DISPLACED PERSONS
IFAD	INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
IFMS	INTEGRATED FINANCIAL MANAGEMENT SYSTEM
IfS	INSTRUMENT FOR STABILITY
IGAD	INTER-GOVERNMENTAL AUTHORITY ON DEVELOPMENT
IMF	INTERNATIONAL MONETARY FUND
JBSF	JOINT BUDGET SUPPORT FRAMEWORK
JAF	JOINT PERFORMANCE ASSISTANCE FRAMEWORK
LG	LOCAL GOVERNMENT
LRA	LORD RESISTANCE ARMY
MAAIF	MINISTRY OF AGRICULTURE, ANIMAL INDUSTRY AND FISHERIES
MDG	MILLENIUM DEVELOPMENT GOALS
MTTI	MINISTRY OF TOURISM, TRADE AND INDUSTRY

NAADS	NATIONAL AGRICULTURAL ADVISORY SERVICES
NAO	NATIONAL AUTHORIZING OFFICER
NARO	NATIONAL AGRICULTURAL RESEARCH ORGANISATION
NCR	NORTHERN CORRIDOR ROUTE
NDP	NATIONAL DEVELOPMENT PLAN
NGO	NON GOVERNMENTAL ORGANISATIONS
NIP	NATIONAL INDICATIVE PROGRAMME
NIS	NATIONAL INTEGRITY SURVEY
NRM	NATIONAL RESISTANCE MOVEMENT
NSA	NON STATE ACTORS
NUREP	NORTHERN UGANDA REHABILITATION PROGRAMME
OLAF	EUROPEAN ANTI-FRAUD OFFICE
PABS	POVERTY ALLEVIATION BUDGET SUPPORT PROGRAMME
PEAP	POVERTY ERADICATION ACTION PLAN
PEFA	PUBLIC EXPENDITURE & FINANCIAL ACCOUNTABILITY
PEFF	PRIVATE ENTERPRISE FINANCE FACILITY
PFM	PUBLIC FINANCE MANAGEMENT
PIU	PROJECT IMPLEMENTATION UNIT
PMA	PLAN FOR MODERNISATION OF AGRICULTURE
PPDA	PUBLIC PROCUREMENT AND DISPOSAL OF PUBLIC ASSETS AUTHORITY
PRDP	PEACE, RECOVERY DEVELOPMENT PLAN
PSI	POLICY SUPPORT INSTRUMENT
ROM	RESULTS ORIENTED MANAGEMENT
RSDP	ROAD SECTOR DEVELOPMENT PROGRAMME
RWIDE	RURAL WELFARE IMPROVEMENT FOR DEVELOPMENT
SBS	SECTOR BUDGET SUPPORT
SCAU	SEND-A-COW-UGANDA
SADC	SOUTHERN AFRICA DEVELOPMENT COMMUNITY
STABEX	STABILISATION OF EXPORT EARNINGS
TC	TECHNICAL COOPERATION
TCF	TECHNICAL COOPERATION FACILITY
UAC	UGANDA AIDS COMMISSION
UJAS	UGANDA JOINT ASSISTANCE STRATEGY
UNHCR	UNITED NATIONS HUMAN RIGHTS COMMISSION
UNICEF	UNITED NATIONSS CHILDREN'S EDUCATION FUND
UNRA	UGANDA NATIONAL ROADS AUTHORITY
UPDF	UGANDA PEOPLE DEFENCE FORCES
USD	UNITED STATES DOLLAR
WB	WORLD BANK
WFP	WORLD FOOD PROGRAMME
WHO	WORLD HEALTH ORGANISATION

EXECUTIVE SUMMARY

The 2008 Joint Annual Review (JAR) was drafted by the Delegation and discussed afterwards with the NAO. Member states represented in Uganda were also consulted but the Delegation did not receive specific comments.

This JAR reports about the EC-Uganda Partnership in 2008.

Political and trade analysis

Government of Uganda (GoU) has shown a political will to continue democratising by allowing for opposition parties, the freedom of speech, and the proliferation of civil society. The ruling National Resistance Movement and main opposition party Forum for Democratic Change are yet to adapt to their new roles and have not found a constructive working relationship in the new multi-party system. In addition, many opposition parties are critical of what they feel is a hostile political environment. In view of the 2011 general elections, the EC Delegation has continued its support to strengthening electoral reform and multi-party democracy.

The military offensive by the Uganda Peoples Defence Forces of the 14 Dec 2008 against the Lord Resistance Army marked the unsuccessful end of the Juba Talks. The military offensive ended without achieving the declared intention of either arresting Joseph Kony or pushing him into signing a peace agreement.

The Karamoja region continues to suffer from the chronic set of problems around extreme poverty, drought, insecurity due to cattle raids among tribes in the region, and poor access to basic services. GoU launched the Peace, Recovery and Development Plan in October 2007 to rehabilitate Northern Uganda and the Karamoja Integrated Development and Disarmament Plan on 18 April 2008. These initiatives provide a comprehensive framework for continuous support by the European Commission to local governance, social infrastructure and conflict resolution in Karamoja, including the EC interventions through the Instrument for Stability which started in March 2008. Under the Instrument for Stability, the Uganda Peoples Defence Forces became one core partner in civil military co-operation interventions together with Civil Society and Local Government actors. This intervention has increased confidence between the Uganda Peoples Defence Forces and the civil society towards restoring law and order.

The decentralisation process in Uganda is well advancing with responsibilities formally delegated to the Local Governments. However, service delivery by Local Governments is lacking behind and the regular creation of new districts only contributes to worsening local finances, and to create wider gaps in district capacity.

The 10th EDF governance commitments, which include measures on human rights and fundamental freedoms, strengthening multi-party democracy, the rule of law, control of corruption, government effectiveness through efficient public finance management, economic and social governance as well as internal and external security and regional cooperation have been updated in cooperation with the EU member states present in Uganda. These commitments are part of the regular dialogue between the Government of Uganda, non state actors and the development partners.

Fight against corruption remains one of the most prominent governance issues regarding the implementation of existing policies and programs. *Findings of the National Integrity Survey - NIS (2008)* established the most prevalent form of corruption as bribery (66%), largely attributed to greed (69.4%). This is a departure from the previous NIS (2003) where the main cause was low salary. The level of reporting corruption across the regions was very low and the main reason for not reporting was lack of knowledge of where to report (50.9%). The institutions that were rated by households to be the most corrupt were Police (88.2%); Traffic Police (87.9%); Judiciary (79.4%); Uganda Revenue Authority (77.0%) and District Service Commissions (73.7%).

In May 2008, the Judiciary established the Anti-Corruption Court as a division of the high court. This Court is mandated to exclusively handle cases of corruption and expedite their adjudication.

Uganda has supported the EPA agenda from its beginning and has also strongly supported the Eastern Africa Community (EAC) regional integration agenda. Uganda played a key role in having EAC negotiate the EPA as a regional block and in securing the signing of a framework EPA before the deadline of 31st December 2007. The Framework EPA provided a modality for continuing negotiations beyond the original deadline of 31st December 2007. In this respect, a new timetable for negotiations was agreed to conclude a full EPA by July 2009

Socio-Economic analysis

Uganda's strong economic performance has continued in 2007/08 with real GDP growing above trend at 8.7%. The main factors underlying this performance lie in the country's ability to play off, improved regional stability—demand for Ugandan goods from South Sudan and the DR Congo, in particular, has been strong—and very rapid expansion in foreign and domestic investments. Inadequate infrastructure and slow recovery in the North limited economic growth.

With Uganda self-sufficient in food production—and even a net exporter in some years—the impact of the hike in international food prices has been limited. Moving forward, the country would be well-positioned to benefit if global food prices remained high.

In this context the impact of the financial crisis, although significant given Uganda's position as a small open economy, appears to be manageable.

Government's strategy in public finance reform relies, to a large extent, on the gradual computerisation of financial transactions through the implementation of the Integrated Financial Management System. The system now covers all Ministries and fourteen local authorities, with significant positive effects on the payment cycle and the quality and timeliness of financial accounting and reporting. However, cases of fraud, losses, waste and poor documentation cited in the latest Auditor General's report suggest that problems with expenditure control and reporting systems still exist.

While poverty levels have continued to drop over the last years, the quality of the delivery of basic services remains too low, adversely affecting the likelihood of attaining some MDG targets coupled with a very high population growth. The Government's objectives in the education and health sectors – the focus sectors of the ongoing MDG Contract – are broad, remain under-funded, and lack a clear prioritisation of key activities.

Uganda's global HIV/AIDS prevention success story of the 1990s is facing challenges of sustaining achievements in reducing the rate of new infections. Recent reports suggest that new infections are rising again and that there is need for special interventions, for example, in post conflict areas where the prevalence rate is increasing.

Uganda has supported the EPA agenda from its beginning and has also strongly supported the Eastern Africa Community regional integration agenda and it is on top of Uganda's foreign trade policy agenda. Uganda played a key role in having EAC negotiate the EPA as a regional block.

Rural development and environment

The policy dialogue in agriculture has become progressively more difficult over the past two years. In September 2007, GoU suspended the National Agricultural Advisory Services (NAADS) programme. A resumption of dialogue with GoU in April 2008 led to a compromise agreement for NAADS operation but narrowing the target farmer population and excluding private service providers. So far, these fundamental differences have not been resolved and, as a consequence, the 10th EDF rural sector budget support will not be programmed until the 2010 Annual Action Plan. Eventually, these funds may be redirected towards supporting specific value chains (an alternative mentioned in the CSP).

In Northern Uganda, performance of Northern Uganda Rehabilitation Programme (NUREP) progressed slowly due to various managerial difficulties arising from the manpower problems of the Project Implementation Unit. The procedural and contractual difficulties encountered by the programme are clear proof that Northern Uganda (including Karamoja) needed to be exempted from EC standard financial procedures and benefit from the fragile status declaration.

Uganda's economy is heavily dependent on the exploitation of its natural resources, particularly water, agricultural production and forestry. The effects of climate change, however, are already starting to appear through increased frequency of extreme weather events such as droughts, floods, and higher temperatures. Low water levels in Lake Victoria since 2005 have led to power shortages, disruption of water supply to urban settlements around the lake, and are thought to have negatively affected Lake Victoria's fish resources. The recent discovery of oil in Western Uganda will no doubt affect future natural resource management in the region.

Road Infrastructure

In the transport sector, GoU continued the implementation of its Road Sector Development Programme to improve the condition of the national road network and to strengthen the management of the road sector. The road sector received a budgetary increase of over 50% for the FY 2008/2009 probably in recognition of the huge investment that are needed to upgrade and improve the road network. The increased spending is foreseen for a period of three years which suggests that the drive to improve the road condition in the country could also be linked to the upcoming 2011 elections.

A major milestone was achieved with the creation of the Uganda National Roads Authority whose mandate is to manage the national road network commencing its operations on 1 July 2008.

However, in the course of 2008, the Government issued two controversial policy changes. The first concerns the expansion of force account operations at District Level which are in contradiction to the Government's policy of contracting out road works to the private sector. The second policy change concerns a proposal to establish a State Owned Construction Company to address the high construction costs, the weak National Construction Industry, and the unpredictable foreign contractors. The Development Partners have repeatedly expressed their concerns about both these proposals.

The road sector faces a number of challenges. These not only include challenges of technical, legal, and institutional nature but also those on axle load control, data collection, road safety, road works delivery methods, local construction industry, planning and investment prioritization, strengthening stakeholder consultation as well as the integration of cross-cutting issues into all aspects of implementation of the Road Sector Development Programme.

As regards the 10th EDF Road Sector Budget Support component of the Ugandan Road Sector Policy Support Programme, a formulation study was conducted including an assessment of the feasibility of a Ugandan Road Sector Policy programme and its design. However, considering that the Road Fund Act had not yet been passed by May 2008, the programme was postponed until 2010.

10th EDF implementation

The 10th EDF NIP (439 MEuro) was initially planned to be implemented in three phases:

1. 251 MEuro (57.1 % of the total A-Envelope) to be globally committed in 2008.
2. 166 MEuro (37.8% of the total A-envelope) to be globally committed in 2009
3. 22 MEuro (or 5% of the total A-envelope) to be globally committed in 2010.

As of today, 251 MEuro under Phase 1 have been adopted and are under implementation. Some 126 MEuro from Phase 2 are planned to be adopted in 2009, while the rest is to be adopted in 2010. The difference between the original plan and the current status of phase 2 is due to the postponement of the road sector budget support to 2010. By the end of 2009, 86% of the total 10th EDF will be committed.

1. The country performance

1.1. Update of the political situation and political governance

According to the Bertelsmann Stiftung 2008 report¹, the level of democracy in Uganda was ranked 6.8 out of 10, and at number 45 of 125 countries. During the period under review, the political system has made significant progress toward becoming a competitive democracy with unrestricted opportunities for political parties. The impressiveness of this is compounded following nearly two decades of a one-party-system. There are viable elements of political participation at the local level, and there is a discernible and growing willingness to accept the legitimacy of different players within a more open political system. There have been some constraints and setbacks to the democratisation process in Uganda, but there appears to be a general strong political will to continue democratising by allowing for opposition parties, the freedom of speech, and the proliferation of civil society. Challenges to this will in the period under review include a lack of knowledge of the rights and obligations of political parties and occasional evidences of limiting freedom of speech which deters overall democratic perceptions.

During 2008, political parties under the **multi-party dispensation** became increasingly active. Although they are active both within and outside the parliamentary arena, holding the executive to account in many areas, many opposition parties are critical of what they feel is a hostile political environment. The ruling National Resistance Movement (NRM) and main opposition party Forum for Democratic Change (FDC) are yet to adapt to their new roles and have not found a constructive working relationship in the new multi-party system.

As a follow-up to the EU Election Observation Mission report, and also in the lead up to the 2011 elections, the EU continues its support to strengthening electoral reform and multi-party democracy, through a support programme with the Parliament of Uganda, under the 9th EDF Human Rights and Good Governance Programme. A follow up workshop on strengthening multi-party democracy and electoral reform was held with members of Parliament in November 2008. The key recommendation from all stakeholders was that Government provides sufficient funding to the Electoral Commission in time to ensure implementation of electoral laws and preparation of elections.

The peace negotiations between the Government and the **Lord's Resistance Army (LRA)** to resolve the armed conflict in Northern Uganda broke down in November 2008, with the third failure of signing the final Peace Agreement by LRA leader Joseph Kony. The latest and most likely last initiative to revitalise the signing process took place on the 5th November 2008 with the "Munyonyo Declaration". It was subsequently agreed that Joseph Kony would sign the FPA on 29th Nov 2008. However, this occasion did not bring any progress as Kony once again did not show up, arguing the lack of security for him under International Criminal Court (ICC) warrant. The military offensive by the Uganda Peoples Defence Forces (UPDF) of the 14 Dec 2008 against the LRA marked the unsuccessful end of the Juba Talks. The newly

¹ 92 Global Integrity. Available at <http://www.globalintegrity.org/data/downloads.cfm>. Accessed on 1 November 2008. 93 Bertelsmann Stiftung 2008 Report. Available at en.bertelsmann-stiftung.de/index.html. Accessed on 1 November 2008.

implemented military option is lacking 'quick results' as promised immediately after the launch. While there are reports of high ranking LRA combatants defecting and surrendering, Kony remains at large and there have been increased killings and abductions in both D.R. Congo and Southern Sudan.

The **Karamoja** region continues to suffer from the chronic set of problems around extreme poverty, drought, disease epidemics, insecurity through banditry and cattle rustling, poor access to basic services of health, water and education, poor road infrastructure and very limited trade opportunities. 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. Beside of the Peace, Recovery and Development Plan (PRDP) launched in October 2007 to rehabilitate the north including Karamoja, Government of Uganda (GoU) launched the Karamoja Integrated Development and Disarmament Plan on 18 April 2008, which provides a comprehensive framework for continuous support by the European Commission to local governance, social infrastructure and conflict resolution in Karamoja. The situation has improved in 2008 through better gun control, a reduction in road ambushes, a reduction in gun wound patients in hospitals of Karamoja, safer highways of Karamoja, the possibility of inter-territorial dialogue, a reduction in cattle raids, improved trade due to safe high ways, initiation of the establishment of rule of law by increased deployment of police and magistrates, resettlement by communities in neighbouring districts and increasing re-stocking of livestock by neighbouring districts attributed to prevailing peace in the region. The interventions through the Instrument for Stability started in March 2008. The Uganda Peoples Defence Forces (UPDF) became one core partner in civil military co-operation interventions together with Civil Society and Local Government actors.

The **decentralisation process** in Uganda is well advancing with responsibilities formally delegated to the Local Governments (LG). However, service delivery by LG is still lagging behind. Initiatives of community and LG rehabilitation in Northern Uganda had significant effect to better LG performance benefiting from the stable and peaceful situation in the North. The local authorities continue to find themselves still without adequate funding, including local revenue, to provide the necessary basic services. The creation of new districts (there are now 80 in total) has contributed to worsening finances and has created wider gaps in district capacity between new remote districts and prosperous districts around Kampala.

In terms of **media**, several newspapers, some of them newly on the market, are regularly 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. The 9th EDF Human Rights Programme provides support and capacity building to independent media. While there remains broadly freedom of the press, Government and the Uganda Broadcasting Commission have strongly advised the media to avoid "unprofessional" reporting.

Article 8 Dialogue was strengthened in order for it to be the primordial tool for regular political exchange between the EC, the EU presidency, the EU Member States present in Uganda and the Government. A structure to the political dialogue was therefore proposed, around specific objectives deriving from the governance commitments taken by the Government in the context of the 10th EDF, as well as from the joint EU-Africa action plan adopted in Lisbon. These objectives comprise regular reviews within a number of areas

including: human rights and freedom of expression by media and civil society; strengthening multi-party democracy; improving the rule of law, and internal and external security. The political Dialogue with the Government also included reviews and updates on progress made in the areas of corruption (i.e. the Global Fund scandal); on public finance and road sector management: and international and regional issues such as the EU-Africa Partnership on Peace and Security, the Great Lakes, African Peace and Security Architecture, and African Peer Review Mechanism. However, the EU's political dialogue with Uganda practically stopped during 2008. The last official Article 8 Dialogue with the Presidency took place in November 2007. Despite EU attempts at revitalising the dialogue, President Museveni and key members of the Cabinet continued to declare that the country expects a reduction in donor dependency. This view is borne from donors becoming more demanding on good governance and from the prospects of increasing economic growth partially due to oil revenues as from 2010/2011.

Concerning **regional** developments, these have remained on course with the East African Community strengthening its structures. Cooperation between DR Congo and Uganda in the area of regional security and refugees has improved but the presence of the LRA in Garamba forest has been challenging during 2008. The Instrument for Stability (IfS) component on the so called 'Ateker' group of pastoralist communities in East Africa has provided first achievements, bringing together government and non government representatives from Sudan, Kenya, Ethiopia to Uganda. The framework of the International Conference on the Great Lakes Region (ICGLR) on Peace and Security has been used to prepare for a joint planning conference for internationally coordinated interventions on this matter in June 2009.

Regarding the 10th EDF **governance commitments**, which include measures on human rights and fundamental freedoms, strengthening multi-party democracy and civic education, the rule of law, control of corruption, government effectiveness through efficient public finance management, economic and social governance as well as internal and external security and regional cooperation have been updated in cooperation with the EU member states present in Uganda. These commitments are part of the dialogue between the Government of Uganda, non state actors and the development partners in various fora, and in particular should provide guidance for the Article 8 political dialogue under the Cotonou Agreement.

1.2. Update on the economic situation and economic governance

Macro-economic management

Uganda's strong economic performance has continued in 2007/08 with real GDP growing above trend at 8.7%². The economy's ability to withstand high rates of growth in the face of multiple disturbances (oil and food prices, Kenyan crisis, and power shortages) testifies of its increasing dynamism and resilience to shocks. The main factors underlying this performance lie in the country's ability payoff, improved regional stability—demand for Ugandan goods from South Sudan and the DR Congo, in particular, has been strong—and very rapid expansion in foreign and domestic investments. Inadequate infrastructure and slow recovery in the North limited economic growth and the extent to which it was broadly shared across the

² At factor prices; source Ministry of Finance. NB: GDP estimates revised following rebasing national accounts.

population. Rapid progress in the construction of the Bujagali dam, which started in January 2008 after several postponements, is a positive development in this regard³.

With Uganda self-sufficient in food production—and even a net exporter in some years—the impact of the hike in international food prices has been limited. Its effect has mainly been felt through an increase in core inflation⁴ which reached 20% at the end of the financial year before receding but at very slow rate. Moving forward, the country would be well-positioned to benefit if global food prices remained high.

In this context the impact of the financial crisis, although significant given Uganda's position as a small open economy, appears to be manageable. World Bank and IMF preliminary estimates suggest that the immediate/direct impact of the crisis will be limited thanks to a sound and well capitalised financial sector and ample international reserves. In the medium term, lower global demand, foreign investments and remittances will restrain future growth. As a result, GDP growth is expected to slow, albeit to a still healthy 7-7.5%, in 2008/09 and average 6.9% for the period 2008/9-2010/11⁵. This will nevertheless put some pressure on the financing of the budget. In this regard, the on-going reduction of aid dependency may be halted as currency depreciation and slower growth limit Government revenue growth and the maintenance of aid flows at their projected levels will therefore play a key role in sustaining a balanced budget. Anticipated revenues from the extraction of new found oil in Western Uganda due to start in 2010 would also provide a welcome boost to domestic revenues.

Fiscal policy

Budget execution in 2007/08 was broadly in line with the approved budget, although over-expenditure in Public Administration—this time on account of CHOGM⁶ related expenditures—and domestic arrears accumulation have remained problematic. The budget for 2008/09 marks a significant shift towards increased spending on infrastructure (mainly roads), which has been identified as the main factor limiting economic growth (e.g., World Bank Country Economic Memorandum, 2007). This increase in the road budget without detailed plans to use the extra resources poses a challenge to GoU especially in ensuring value for money plans.

Public Finance Management

Preliminary⁷ findings from the 2008/9 PEFA assessment suggest that progress in the performance of national PFM systems has been significant since the last PEFA assessment undertaken three years ago. Across the 28 indicators used to assess the different dimensions of PFM systems, 13 displayed an improvement, 12 were given the same ranking and only 2 were assessed as worst. The draft report notably singles out the transparency of taxpayer obligations and liabilities, cash and debt management, timeliness and accuracy of in-year MDA financial statements and the consolidation all government cash balances as displaying marked improvements since the last PEFA review. The assessment also indicates, however, that a number of weak areas identified in previous assessments have remained so. This is

³ Partly funded by the EIB

⁴ Tradable food products are part of the core inflation index.

⁵ IMF and World Bank estimations.

⁶ The Commonwealth Heads of Government Meeting (CHOGM) took place in November 2007.

⁷ The draft presented does not include comments from Government and some Development, e.g., the World Bank on the assessment. Some scores could, as a result, vary in the final report approved by all stakeholders.

notably the case regarding the national budget which is not yet a credible indicator of actual outturns (due to the lack of data on expenditure – although this problem is being addressed see below), domestic arrears, internal controls (particularly payroll) and procurement.

Government's strategy in public finance reform relies, to a large extent, on the gradual computerisation of financial transactions through the implementation of the Integrated Financial Management System (IFMS). Notwithstanding some delays in the early phases of implementation, the system now covers all Ministries and fourteen local authorities, with significant positive effects on the payment cycle and the quality and timeliness of financial accounting and reporting. IFMS implementation has also led to improved internal controls in the Ministries and participating LGs. The reduction in the creation of arrears on payments to suppliers is a case in point. However, cases of fraud, losses, waste and poor documentation cited in the latest Auditor General's report suggest that problems with expenditure control and reporting systems remain significant.

An on-going Public Expenditure and Financial Accountability (PEFA) review, scheduled for finalisation in February 2009, should shed more light on these issues.

Economic Partnership Agreement (EPA)

Uganda has supported the EPA agenda from its beginning and has also strongly supported the Eastern Africa Community (EAC) regional integration agenda. Uganda played a key role in having EAC negotiate the EPA as a regional block.

Uganda also played a critical role in securing the signing of a framework EPA before the deadline of 31st December 2007. The Framework EPA provided a modality for continuing negotiations beyond the original deadline of 31st December 2007. In this respect, a new timetable for negotiations was agreed to conclude a full EPA by July 2009. Negotiations cover: Customs and Trade Facilitation; Outstanding trade and market access issues including Rules of Origin, Technical Barriers to Trade and Sanitary and Phytosanitary measures; Trade in Services; Trade Related Issues namely: Competition Policy; Investment and Private Sector Development; Trade, Environment and Sustainable Development; Intellectual Property Rights; and Transparency in Public Procurement; Agriculture; Dispute Settlement Mechanism and Institutional Arrangements; and Economic and Development Co-operation.

The Ministry of Tourism, Trade and Industry (MTTI) coordinates the EPA negotiations process. The MTTI has led efforts to create awareness and sensitisation about the EPA, with other sectors. However further engagement is still required. Sensitisation and awareness creation activities have ranged from general media publications to sector specific seminars on the opportunities that the EPA provides. The Ministry has also engaged the parliamentarians who have increasingly appreciated the need to conclude an EPA. The political leadership is also positive about the EPA.

The positions of Civil Society Organisations (CSO) has relatively changed from a "NO EPA" stand to "Good EPA outcome", and are more willing to engage government in improving the EPA outcome though they remain critical. The Private Sector took an extremely resistant approach but, following joint efforts of the GoU and the EC, it is now firmly backing a comprehensive EPA.

There are challenges in the EPA negotiations process and these include: an emerging trend of incoherent views among the EAC Partner States on issues under negotiations, leading to the

lack of agreements on those issues (i.e. case of Tanzania) ; clarity on the amount of "aid for trade" resources that the EC is and will be providing to Uganda and the EAC region to help prepare adequately for fully EPA implementation and minimise negative impact, if any, to the region; creating ownership of the EPA at the lower level remains a problem, which is necessary if the private sector is to effectively position itself to exploit opportunities created by the EPAs; the involvement of key stakeholder ministries/sectors at political and senior management levels in the EPA process is still deficient and yet the agreement has far wide reaching effects on the economy as a whole.

Trade Balance

Uganda continued to experience unfavourable trade balance in 2007, with a trade deficit of US\$2.2 billion, up from a trade deficit of US\$1.6billion in 2006. The official statistics for 2008 are yet to be released. Exports increased by 38.9% from US\$962.2M in 2006 to US\$ 1,336.7M in 2007, while imports grew by 36.7% percent from US\$2,557.3M in 2006 to US\$3,495.4M in 2007. Although the country's exports increased substantially, the imports bill increased by a wider margin thereby worsening the trade deficit in 2007.

Direction of trade

The Common Market for Eastern and Southern Africa (COMESA) member states and European Union (EU) countries were the major trading partners with Uganda in 2007. The COMESA region registered a market share of 37.9% during 2007 compared to 29.5% in 2006. This was followed by the European Union with 24.3% in 2007, then the Middle East accounting for 14.3% of the total market share. The value of exports to COMESA rose by 78.5% from US\$283.7 million in 2006 to US\$506.5 million in 2007. In 2007, the major trading partners within the COMESA region were Sudan, Kenya and DR Congo. The value of exports to the EU region increased from US\$ 263.8 million in 2006 to US\$ 324.4 million in 2007. However, its market share declined significantly on account of increased exports absorption by other regional blocs.

In 2007, the import bill grew by 36.7%t to US\$ 3,495.4 million from US\$ 2,557.3 million in 2006. The major products that registered significant increase in the imports bill were petroleum products (18.5%), telecommunication apparatus (10%) and road vehicles. In 2007, imports from Asia increased by 56.7%to US\$ 1,175 million from US\$750 million in 2006. Specific countries that registered remarkable increase in the import bill were China, India and Japan where most vehicles and, medical and pharmaceutical products originate.

A total of US\$ 803 million was spent on imports from the African continent in 2007 as compared to US\$ 639.3 million and US\$ 742.9 million in 2006 and 2005 respectively. Although African's import bill increased in nominal terms by 25.6% in 2007, its market share reduced from 25% in 2006 to 23% in 2007. COMESA member states accounted for 68.8 percent of the total imports market share for Africa. Overall, Kenya was main source of Uganda's imports in the COMESA region and the African continent counting for 88.5% and 61.7% of the market share in 2007 respectively.

Regional Integration

Uganda has remained supportive of the EAC regional integration and it is on top of Uganda's foreign trade policy agenda. The EAC customs union implementation has continued and

negotiations for the EAC common market are on track. The EAC Common Market Protocol is expected to be concluded by April 2009. Formal discussions of the EAC monetary Union are expected to start before the end of 2009 and is planned to come in effect by 2012. In support of the EAC regional integration agenda, Uganda has to date postponed ratification of the COMESA free trade area, but initiated the EAC, COMESA, SADC tripartite summit that was held in Kampala, with the main conclusion of forming a free trade area covering all the 3 regional blocs.

1.3. Update on the poverty and social situation

While poverty levels have continued to drop over the last years, the quality of the delivery of basic services remains too low, adversely affecting the likeliness of attaining some MDG targets (see Annexes 1B and 1C for a presentation of the assessments of the likeliness of attaining each MDG target). The 2005/06 National Household Survey showed that poverty declined to 31%, down from 38% in 2002/03 and 56% in 1992/93. Growth in household income from improved distribution and better crop prices, has contributed to the decline in poverty and inequality. However, the rural/urban and inter-regional disparities in poverty rates still exist with the highest poverty rate (61%) found in Northern Uganda, which has endured prolonged insecurity. Inequality has declined between 2002/03 and 2005/06 – the Gini coefficient falling from 0.43 to 0.41 in 2005/06 – but more needs to be done to bring inequality down to 1992/93 levels. Results of the 2006 Uganda Demographic and Health Survey and more recent administrative data show improvements in access to health care, education, and water/sanitation services. Yet, Uganda continues to have a very low Human Development Index (HDI), ranking as number 156 out of 179 countries in 2008. In light of the policy reforms and investments over the past years, the 2015 MDG targets are in potential reach for achieving universal primary education, gender equality, immunisation, and better access to improved water source and sanitation. Yet, the MDG targets for Under-5 Mortality, Infant Mortality, Maternal Mortality and the combat against HIV/AIDS, malaria and other diseases are unlikely to be achieved by 2015.

After a rapid increase of the coverage and the range of the social services delivered in the early 2000s, increasing marginal costs, coupled with declines in real per capital social budgets (*on account of the very high population growth*⁸) and growing concerns with respect to the quality of service delivery (*especially at local level*), have led to a stagnation in social outcomes/outputs performances. The main challenges to maintain and deepen achievements in the social sectors are the continuously high population growth rate driven by short birth intervals (29 months) and early age at first birth (median is 18.6 years)⁹; insufficient availability of drugs to treat malaria, diarrhoea and acute respiratory infection; low value for money of public spending; limited skilled human resources; and socio-cultural barriers.

The significant shift in budget allocation towards social sectors did indeed crowd out allocations to social sectors – a trend which started a number of years back.

⁸ Uganda has a population of approximately 31 million growing at 3.2% per annum. At this rate Uganda's population is expected to reach 130 million people by 2050. Clearly, such a rise puts enormous pressure on GoU's ability to provide social services, on land use, protection of the environment, and the labour market.

⁹ Source of information: The State of Uganda Population Report 2008

There is a sense today, that in the context of social impacts of the global crises that the move towards infrastructure prioritisation has gone too far and may need to be partially or temporarily reversed (an IMF mission is currently discussing the 2009/10 budget with GoU).

It should be noted, however, that this latest trend followed a period of very rapid growth in social sector / service delivery spending which led to value for money, fiscal sustainability and Dutch disease (aid driven spending on non-tradables, e.g., teachers) concerns on both Government and DP sides. In this context, the move towards prioritising infrastructure was supported by the DP community (e.g., World Bank Country Economic Memorandum).

The consensus view today (in view of the 2009/2010 draft budget) is that the budget needs to be rebalanced in favour of social spending.

The Government's objectives in the education and health sectors – the focus sectors of the MDG Contract – are broad, remain under-funded, and lack a clear prioritisation of key activities. In addressing these issues, Government initiated the process of implementing performance based budgeting, which is supported by the EC and all other Joint Budget Support Framework (JBSF) donors. The clear link between budgets and expected outputs/outcomes is intended to contribute to higher levels of efficiency overall and better outcomes in the prioritised areas.

In the case of the Health sector, performance against the subset of health indicators used in the interim Joint performance Assessment Framework (JAF) and JAF 0 (*and also in PABS V, the previous EC budget support operation*) is negative with all three indicators not being met, and two out of three displaying an absolute deterioration. It should be noted, however, that these disappointing results are partly explained by the very good progress made over the past last 5-10 years, raising the bar for subsequent periods. This is particularly clear in the case of immunisation. It will become increasingly difficult to effectively serve a fast growing population with stagnating resources at district level.

Target	Base 02/03	Result 06/07	Target 07/08	Result 07/08	
1. Out patient department utilisation rate (visits per person per year)	0.7	0.9	0.96	0.8	Not met
2. Proportion of deliveries in health facilities	20%	32%	35%	33%	Not met
3. Proportion of children immunised with DPT3	84%	90%	95%	82%	Not met

In the case of Education outcomes monitored in the context of the interim JAF and JAF 0, performance is more positive with, all targets being met (although the variation for some indicators is very limited).

Target	Result 06/07	Target 07/08	Result 07/08	
1. Average Completion rate	50%	51 %	51.6%	Met
2. Proportion of pupils reaching defined levels of competency in literacy at P3 and P6	P3: 45.6% P6: 33.5%	increase vs 06/07	P3: 45.5% P6: 49.6%	Met
3. Proportion of pupils reaching defined levels	P3: 42.6%	increase	P3: 44.8%	Met

of competency in numeracy at P3 and P6	P6: 30.5%	vs 06/07	P6: 41.4%	
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Critical issues to be discussed at sector level include the high rates of health workers' and teachers' absenteeism, slow improving quality of service delivery, continued coordination and management problems between central ministries and local governments, and the need for better alignment of budgets with key objectives and activities. Particular areas of concern are the perceived lack of value for money in public service delivery, decrease (in real terms) of public funding to the social sectors, high level of off-budget funding especially in the health sector which contributes to coordination problems, and the fiscal and implementation challenges of the Universal Secondary Education policy as well as the Road Map for Reducing Maternal and Neonatal Morbidity and Mortality in Uganda.

The new National Development Plan (NDP) under preparation bears the possibility of a more realistic costing of sector policies by prioritising key areas that will help to achieve the MDGs. This will be supported by the strong focus on results in the JAF. Furthermore, the implementation of the new National Population Policy for Social Transformation and Sustainable Development (2008) will be critical in managing the population growth rate and its effects in a sustainable manner.

Uganda's global HIV/AIDS prevention success story of the 1990s is facing challenges of sustaining achievements in reducing the rate of new infections. From a peak of 18% prevalence rate in 1992, Uganda has come a long way to an estimated 6.4% in 2004/05 (NHSBS¹⁰). Nevertheless, more recent reports suggest that new infections are rising again and that there is need for special interventions, for example, in post conflict areas where the prevalence rate is much higher at estimated 12%.

In order to tackle the HIV/AIDS epidemic, the Uganda AIDS Commission (UAC) led the development of a multisectoral approach to the control of HIV/AIDS and subsequent national policy frameworks. Currently, the UAC is working with all stakeholders to develop a HIV and AIDS Prevention and Control Bill.

Additional challenges stemming from the HIV/AIDS epidemic are the limited access to anti-retroviral drugs as only an estimated 10% of those in need have access, and the roughly two million orphans caused by HIV/AIDS. Several activities related to the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) were negatively affected due to the delays in fund releases after the embezzlement of GFATM funds and the lack of follow-up by GoU (see 1.1 above). More frequent interaction between GoU, the Inspector General (IG) of the GFATM, the GFATM Secretariat, and the DPs at various levels including the Health Policy Advisory Committee (HPAC) and the Country Coordination Mechanism (CCM) have helped to continue services related to HIV/AIDS, and to make progress in drafting and implementing an action plan to address the findings of the IG's report.

1.4. Update on the environmental situation

Uganda's economy is heavily dependent on the exploitation of its natural resources, particularly water, agricultural production and forestry. The effects of climate change,

¹⁰ NHSBS = National HIV Sero and Behavioural Survey

however, are already starting to appear through increased frequency of extreme weather events such as droughts, floods, and higher temperatures.

Climate variability, floods, droughts and changes in seasonal rainfall have had significant socio-economic impacts in Uganda in the past. Floods in 1961/62, 97/98 and in 2007 saw widespread infrastructure damage, displacement and destruction of livelihood assets. Droughts have also taken a significant toll with for example, 1.8 million people affected through increased malnutrition, poverty, illness, asset loss and migration in the 93/94 event. Low lake levels since 2005 have led to power shortages, disruption of water supply to urban settlements around the lake, transportation and infrastructure and are thought to have negatively affected Lake Victoria's fish resources.

The recent discovery of oil in Western Uganda will no doubt affect future natural resource management in the region. Lessons from other oil-rich countries have shown that oil exploitation can have far-reaching impacts on the environment and natural resources which currently poses special risks on the environment particularly since most wells in Uganda are located in Kabwoya Wildlife reserve and Kaiso Tonya Community Wildlife reserve; two protected areas with very unique biodiversity qualities.

Uganda's total energy supply is 317KW, much below the demand (580KW). Government has resorted to the use of thermal power using heavy fuel oil, which is characterised by high energy losses in the distribution system (30%). The government plans to reduce these losses to 25% in the short medium term and has put in place a number of efficiency measures.

Measures proposed over the last year to address climate change in terms of its relevance for the country's economy and poverty situation.

Uganda is a signatory to the United Nations Framework Convention on Climate Change and has acceded to the Kyoto Protocol. To date Uganda is a very active member within the climate change process and has taken a number of policy and regulatory measures to fulfil its obligations under the KP:

- i. An interim arrangement is in place to ensure Uganda's participation in mitigation activities as required by the CDM Executive Board of the Kyoto Protocol. A Clean Development Mechanism designated national authority is in place to approve carbon transactions. Relevant Capacity has been built within both public and private sectors through various government-led initiatives.
- ii. Relevant sectoral policies and institutions have been put in place. The National Environment Act states that all projects under the category listed in Schedule 3 have to undergo Environment Impact Assessment. The establishment of a Climate Change Unit at the Ministry of Water and Environment to coordinate and spear head issues related to addressing the climate change challenge in Uganda is another deliberate effort.
- iii. Uganda prepared its short term adaptation strategy (National Adaptation Programme of Action-NAPA) end of 2007 focusing on urgent and immediate interventions. This strategy emphasizes integration of climate change into development planning among others. The implementation of the identified NAPA priority areas has not taken off due to budgetary constraints. However, the Danish Government is extending support

to the Ministry of Works and Environment to coordinate Climate Change issues, under 3 components:

- Establishment of the Climate Change Secretariat (DKK 5 million, over 4 years) – To strengthen national capacity for coordination and implementation of climate change activities in the country.
- Support to effective participation in the UN Conference on Climate Change in Copenhagen in December 2009 and thereafter implement the resolutions decided upon (DKK 2 million, over 1 ½ years).
- Support to mainstreaming Climate Change adaptation (DKK 4 million, over 4 years)

iv. Concerning the convention on biodiversity, Uganda developed a National Biodiversity Strategy and Action Plan was prepared in 2002 which is now in Cabinet for approval. The objectives include:

- Develop and strengthen co-ordination, measures and frameworks for biodiversity management.
- Facilitate research, information management and information exchange on biodiversity.
- Reduce and manage negative impacts on biodiversity.
 - Promote the sustainable use and equitable sharing of costs and benefits of biodiversity.
 - Enhance awareness on biodiversity issues among the various stakeholders.

The 5 years National Development Plan (NDP), currently under design, includes a thematic working group on Natural Resources, Environment and Climate Change. Although this explicit attention to climate change is positive, it is still unclear how effectively climate change can be mainstreamed into the planning and implementation process of other sectors.

Beyond the policy developments, a number of carbon trading opportunities are emerging. There are a number of market-led opportunities for adaptation and mitigation of the effects of climate change through carbon trade as well as the Clean Development Mechanism of the Kyoto Protocol, which are available on the global market.

The last Country Environmental profile was produced in 2006 and has not been updated.

2. Overview of past and ongoing cooperation

2.1. Reporting on the financial performance of EDF resources

The figures below are detailed in Annex 5.

Consolidated Commitments, contracts and disbursements in 200 and 2008

	2007	2008
Global commitments	9,038,550	251,002,661
Individual commitments	117,873,642	49,060,144
Payments	89,717,713	122,369,022

RAC	52,383,137	258,105,734
RAP	162,115,554	118,163,406
RAL	214,498,691	376,269,140

The difference between the aggregated amounts committed, contracted and disbursed in 2007 and 2008 reflects the transition from the 9th to the 10th EDF. Year 2007 was the deadline for the global commitments of funds under the 9th EDF, hence their low level in 2007 compared to 2008 when 10th EDF funds started to be globally committed. The same pattern explains the low level of individual commitments in 2008 compared to 2007. Although the 10th EDF global commitments were made in 2008, no individual commitments were concluded during the year. The eight Financial Agreements resulting from the Annual Action Plan (AAP) approved in November 2008 will only be signed during the first quarter 2009.

Payments in 2008 were significantly higher than in 2007, but there still was in 2008 a cumulated *Rest à Payer* (RAP) of 118.2 MEuro. This RAP is mainly related to two road projects that represent together some 80 MEuro as due payments:

- Reconstruction of priority sections of Kampala - Mbarara Road (€ 92 million) which is currently ongoing and where substantial payments are expected in 2009 and 2010.
- Backlog Road Maintenance Project (€ 15 million) of which implementation started in May 2008. A total of 3 works contracts and one service contract are ongoing. However, in June 2008, the Delegation was informed of possible irregularities at the tender stage concerning one ongoing works contract. OLAF was notified and it launched an investigation in December 2008. In the meantime, EC HQs suspended payments related to this contract.

10th EDF implementation

The 10th EDF NIP (439 MEuro) was initially planned to be implemented in three phases:

1. 251 MEuro (57.1 % of the total A-Envelope) to be globally committed in 2008.
2. 166 MEuro (37.8% of the total A-envelope) to be globally committed in 2009
3. 22 MEuro (or 5% of the total A-envelope) to be globally committed in 2010.

However, 251 MEuro under phase 1 have been adopted as planned and are under implementation. Some 126 MEuro from phase 2 are planned to be adopted in 2009, while the rest is to be adopted in 2010. The difference between the original plan and the current realisation of phase 2 is due to the postponement of the road sector budget support to 2010. By the end of 2009, 86% of the total 10th EDF will be committed and the entire A-envelope should be committed by the end of 2010.

The table below compares the initial planning in the 10th EDF CSP/NIP with the commitment plan for 2008 and the actual situation as per 31st December 2008. As the table shows, the new commitments planned for 2008 have been fully realised. No disbursement took place in 2008 related to 10th EDF funds.

	Indicative allocation	Budget Support	Project Approach	Commitm'ts planned in 08	Commitm'ts realised in 08	Realised/ planned %
Focal areas	418					
Focal area 1	172					
Road Transport Infrastructure						
Capacity Building			10	10	10	100%
Sector Budget Support		40				
Rehabilitation of Northern Corridor Route			122			
Focal area 2	60					
Rural development						
Sector Budget Support		15				
Support to Agricultural Services						
Forestry Programme			10	10	10	100%
Recovery of Agri. Livelihoods in Northern Uganda			20	20	20	
Karamoja Peace & Dev. Prog			15	15	15	
General Budget Support	186					
General Budget Sup		175		175	175	97%
EPA related support			7	7	5	
Capacity Building (MDG-C)			4	4	0	
Non-focal areas	21					
Democratic Governance Support NAO			12	12	12	
TCF			2			100%
			7	4	4	
Total 10th EDF	439				251	
Total B-Envelope	21.9					
Total 10th EDF A + B Env	460.9					

2.2. Reporting on General and sector Budget Support

- Despite multiple shocks confronting the economy over the last year, GoU interventions have remained broadly consistent with its earlier pronouncements and eligibility conditions for GBS and SBS were considered to be in place throughout the period. In particular, fiscal and macro-economic management were in line with the IMF's Policy Support Instrument (PSI), whose review was endorsed by the board in January 2009. Some specific concerns have nevertheless been raised in the area of accountability, notably in view of the delays in the publication of a series of audits from the Auditor General on the expenditures made in

the run up to the CHOGM summit. In September 2008, the EDF committee also endorsed the eligibility of Uganda to benefit from GBS in the form of an MDG-Contract.

- These conclusions were also highlighted in the context of the first multi-donor assessment of an Interim JAF in March 2008, which concluded that *"the underlying principles and necessary pre-conditions to provide budget support in FY 2008/09 continue to be in place"* and that *"progress on a number of reform agendas, particularly in the area of public financial management" have been made*. The assessment, however, also noted that *"at the outcome level, sector targets have only been partially met warranting concern about Uganda's progress towards achieving the Millennium Development Goals"*. Discussions around these weaknesses, which have also been recognised by Government, have taken central stage in the design of the JAF and the accompanying package of sector specific (see 1.3) as well as cross-cutting reforms geared at raising the impact of Government spending on economic growth and poverty reduction.
- In particular, disbursements of fixed tranches under PABS V (9th EDF) were based on the fulfilment of the following conditions: (i) macro-economic stability (as assessed by the IMF PSI); (ii) regular Public Expenditure Reviews (PERs); (iii) satisfactory progress in strengthening Public Financial Management (PFM) Systems; and (iv) adequate involvement of the EU in the dialogue on Macroeconomic, Public Financial Management, sector policies and democratic governance. Releases of variable tranches were based on results in the education, health, and water and sanitation sectors. See 1.3 for more details on the selected health and education indicators. In the water sector, the percentage of people within 1.5 km (rural) and 0.2 km (urban) of an improved water source and the percentage of people with access to improved sanitation (rural and urban), were selected.
- Important progress was made in 2008 by Development Partners and GoU in the design of a Joint Budget Support Framework (JBSF), which will include all budget support donors¹¹ and guide the policy dialogue and the assessment of performance on the basis of a Joint performance Assessment Framework (JAF). The finalisation of the JBSF design is expected to be effective towards the end of the first semester of 2009. The main tasks remaining to be completed
- A sector budget support to agriculture (Programme for the Modernisation of Agriculture – PMA - 9 ACP UG 12 – 17,7 M€) made all the payments due in 2008 (see financial report for this programme under 2.3.1 *Rural development* below).

2.3. Projects and programmes in the focal and non focal areas

2.3.1. Focal sectors

The 9th and the 10th CSP/NIPs share the focal sectors of macroeconomic support and infrastructure:

- 9th EDF focal sectors: Macroeconomic Support and Economic Reform and Road Transport Infrastructure.

¹¹ This includes: Norway, Ireland, Sweden, World Bank, UK, Germany, Netherlands, Denmark, African Development Bank, EC.

- 10th EDF focal sectors: Rural Development, Road Transport infrastructure, plus Macro-economic Support (MDG-Contract).

Macro-economic Support and Economic Reform

2008 marked both the finalisation of the PABS V operation (Poverty Alleviation Budgetary Support – 9 ACP UG 14 – 92 MEuro), with the release of its final two tranches in January, and the conclusion of a new six year commitment with the adoption of an MDG Contract for Uganda in November (10th EDF)¹².

Overall, disbursements under PABS reached €76.1 million out of a maximum of €87 million dedicated to BS, excluding technical assistance.

Total GBS commitments for financial year 2007/08 amounted to €36 million (€14.25 m for the last fixed tranche and €21.75 m for the last variable tranche of PABS V). The disbursement ratio over the financial year 2007/08 was 86% €31.05 million out of a total €36 million. The first of the two tranche transfers was done in December 2007, the other one in January 2008.

This relatively good disbursement rate reflects an overall positive performance in the sectors of concentration (Education, Health, and PFM) with most targets being met and 75% of variable tranches' maximum disbursed (81% of the first variable tranche, 68% of the second)¹³. The lower level of disbursement of the second variable tranche is in some concerns with respect to the quality and efficiency of the delivery of public services emerged towards the end of the PABS V operation. This issue is scheduled to be at the core of the dialogue in the MDG-C / JBSF operations. GBS eligibility criteria and especially those in the areas of macro-economic and public finance management were maintained throughout the operation.

It is this strong track record under PABS IV & V, as well as GoU's continuing adherence to a rigorous medium-term fiscal framework and its commitment towards the development of a strong results oriented Joint performance Assessment Framework (JAF), which underpins Uganda's eligibility to the necessary requirements for the implementation of GBS in the form of an MDG Contract. The EDF committee's endorsed the MDG-C programme in 2008 (10th EDF). Projected disbursements under the MDG-C for 2009 includes, originally, two tranches one in April and September (one per Uganda financial year) for a total €56 million.

¹² The actual amount of PABS V reported in CRIS is €88.1 m. The difference between the real amount as in the

Financing Agreement of PABS V (€92 m) and the actual amount in CRIS is explained by the decommitments of amounts related to unpaid variable tranches.

¹³ Areas of sub-optimal performance reflected slippages in the health indicators related to the posting of qualified staff and the number of child deliveries in primary health centres, some deficiency in the provision of information on secondary enrolment rates and delays in setting up adequate reporting systems for the newly created procurement and disposal entities. The use of the JAF i.e. common indicators to be used by the GoU and donors, supported by our MDG-C and future SGER programme, aims to harmonise the management and assessment of indicators

The implementation of the MDG-C (10th EDF) should greatly benefit from the concomitant development of the Joint Budget Support Framework (JBSF) set up by Development Partners in Uganda, which includes all partners providing general budget support and guides the policy dialogue and the assessment of performance on the basis of the aforementioned JAF. The finalisation of the JBSF design is expected to be effective in the course of the first half of 2009.

Capacity Building Component to the General Budget Support (10th EDF)

Two supports targeting Trade Related Assistance and Private Sector Development were identified under the AAP 2008 for a total amount of 7 MEuro.

The "EPA related support programme" (5 MEuro) targets mainly the ministry of Tourism, Trade and Industry and its relevant agencies. The support has been formulated along with the Ministry's Trade Sector Development Plan. Coordination at policy and project level with this Ministry, in particular the Trade Department, continues to be excellent. This relationship is essential in light of the EPA negotiations. The support should be operationalised beginning of 2009.

The "Quality Standard/SPS support programme" (2MEuro) targets the private sector. Its design has been jointly formulated with Danida/SIDA/Belgium; Danida being the lead partner of the up-coming Agribusiness Initiative (23 MEuro). The Delegation faced some difficulties kicking-off the audit of Danida to implement the disbursement of EC contribution through a Delegated Management. This Audit will only be finalised in 2009. The Delegation is still assessing the viability of this small project which, if finally instructed, should be included in the AAP 2010.

Transport

In the transport sector, the Government continued the implementation of its Road Sector Development Programme (RSDP). The objectives of the RSDP are to improve the condition of the national road network and to strengthen the management of the road sector. A Mid Term Review of RSDP II that was due to be completed by mid 2008 was aborted due to poor performance of the consultants. Efforts are underway to have the review completed by a different team by mid 2009. This review will evaluate the performance of the RSDP and guide the formulation for RSDP III.

In terms of improving road condition, an extensive survey of the national road network condition is nearing completion. It will update the overall condition of the National Road network of currently 10,800km. The Government of Uganda's funding for road maintenance and road rehabilitation was substantially increased for the FY 07/08 and FY 08/09. It is expected that the survey will show that these additional resources improved the road condition. In terms of EDF support in 2008, three EDF funded projects have contributed to the improvement of the national road network (Strengthening of the Northern Corridor Route, Reconstruction of priority sections of Kampala - Mbarara road, and Backlog road maintenance programme). In 2008, the condition of approximately 75 km was improved by these projects, which corresponds to 3% of the total paved national network. Once these EDF funded projects are complete, the section of the improved paved network will amount to approximately 12%. To date, there has been no comprehensive data collection and

performance monitoring framework in place. Amongst the many constraints to be addressed, UNRA is currently preparing to establish such a framework which will include indicators such as travel times, and vehicle operating costs. Reliability and availability of data on road safety is expected to improve once a Road Safety Authority has been established.

As regards the implementation and management of the EDF funded road sector projects, both 8th EDF road projects are nearing completion. Disputes over technical specifications and poor contractor performance have delayed the completion of the Kampala Northern Bypass while termination of the initial works contracts delayed the completion of Jinja-Bugiri road section. The termination of the first works contract ended in arbitration and both parties are trying to settle after the partial final award in favour of the contractor in July 2008. Under the 9th EDF, the rehabilitation of the Masaka-Mbarara road section commenced in January 2008 and is currently underway, albeit slightly delayed. The Backlog Roads Maintenance Programme is currently subject of an OLAF investigation over irregularities during the tender process of one works contract.

In terms of institutional reform, a major milestone was achieved with the Uganda National Roads Authority (UNRA) commencing its operations on 1 July 2008. The EDF funded Technical Assistance Programme provided support that was instrumental to the transition and operationalisation of UNRA, whose mandate is to manage the national road network. In this context, the Ministry of Works and Transport handed over projects which had hitherto been responsible for to UNRA by the end of August 2008. The new functions of the Ministry of Works and Transport will be related to policy formulation, advocacy, regulation, and monitoring. This reform process will be supported by other development partners (DFID & World Bank) and are likely to take several years to complete. A third major component of the sector reforms progressed substantially when the Uganda Road Fund Bill was passed in Parliament and assented to by the President in August 2008. The Ministry of Finance invited the different constituents on the Road Fund Board to submit their candidatures. EDF funded TA is supporting the Ministry of Finance, Planning and Economic Development in the operationalisation of the Road Fund.

The coordination and policy dialogue between Government and the 6 Development Partners active in the road sector (EC, World Bank, DFID, AdB, Denmark and Japan) takes place in the framework of the Transport Sector Working Group. In October 2008, the Government organised the fourth Joint Transport Sector Review and the commitments made for the year 08/09 are recorded in an Aide Memoire.

Given the current pace of the institutional reforms, the infancy of key organisations, and the increased budget to the sector, it is apparent that the road sector faces a number of challenges to meet the huge expectations. Against this background, the EC, DFID, and World Bank, in 2008, started to prepare and design capacity development programmes to assist the road sector to meet these challenges. These not only include challenges of technical, legal, and institutional nature but also those on axle load control, data collection, road safety, road works delivery methods, local construction industry, planning and investment prioritization, strengthening stakeholder consultation as well as the integration of cross-cutting issues into all aspects of implementation of the RSDP. A Strategic Environmental Assessment of the Transport Sector is scheduled to take place in the second half of 2009.

As regards the 10th EDF Sector Budget Support component of the Ugandan Road Sector Policy Support Programme, a formulation study was conducted between January and April

2008. This included an assessment of the feasibility of a Ugandan Road Sector Policy programme and its design. However, considering that the Road Fund Act had not yet been passed by May 2008, no Action Fiche was considered for AAP 2008 but was instead deferred to 2009 and finally to the AAP 2010. In this context, an updated assessment of the road sector and the suitability for sector budget support is scheduled in the first quarter of 2009. Critical issues will include progress on operationalisation of the Road Fund, the policy changes, and efforts to strengthen the data collection and performance monitoring

Rural development

Under the sector budget support to agriculture (Programme for the Modernisation of Agriculture – 9 ACP UG 12 – 17.7 M€) a third tranche for an amount of 5.160.000 € was planned and effectively released. Therefore 100% of the planned disbursement was made though with some delay with regard to the plan, the time needed for the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) to comply with the conditions for the release.

However, the Government's Programme for Modernisation of Agriculture (PMA) continued its decline in 2008 as a result of the uncertain policy environment. The competing policies (Rural Development Strategy, Sub-County Model, and the Prosperity for All initiative) promoted by different institutions within GoU have effectively blurred the policy framework and undermined some of the PMA's basic principles.

The weakening dialogue between Development Partners and GoU, coupled with the unilateral suspension of the National Agricultural Advisory Services (NAADS) programme, led to a delay in the disbursement of the SBS third tranche (also see programme PMA in point 2.2 above). Negotiations resumed in the second quarter of 2008 and agreement was reached about transitional arrangements for NAADS. A high level meeting was organised in April 2008 and reassurances given by GoU about the need for partnership and a quality dialogue. The renewed dialogue allowed the disbursement of the third tranche late 2008 and the continued participation in the design of the second phase of NAADS.

However, concern over the changing policy environment remains. Policy changes are now becoming a reality and reflect, to a large degree, the need to deliver on political promises and the frustration with the insufficient progress of "orthodox" recipes. A number of new measures – such as subsidised inputs and supply led credit – are currently being implemented and they are nonetheless part and parcel of home grown and strongly owned policies.

In the area of Forestry, The EC intervention "Sawlog Production Grant Scheme" continued to over perform and surpassed most of the expected outputs, in terms of planted area, training and capacity building and research/planting material. The 8th EDF and STABEX resources combined have been used to plant over 10,000 hectares (against an original target of 5,000 ha) and put commercial forestry back on the agenda of private investors in Uganda. However, policy issues remain, including long standing issues of encroachment and an increased fragility of the National Forestry Authority in terms of its autonomy and decision making. Unless GoU can reassure investors, these problems may well affect the sector in future.

In Northern Uganda, NUREP's performance (Northern Uganda Rehabilitation Programme), which had progressed very slowly due to various managerial difficulties arising from the manpower problems of the Project Implementation Unit (PIU) that necessitated changes in its

management, improved substantially in 2008 thus enabled funds to be fully committed within the D+3 period. However, the procedural and contractual difficulties encountered by the programme are clear proof that Northern Uganda (including Karamoja) need to be exempted from EC standard financial procedures and benefit from the fragile status declaration. The nature of interventions in Northern Uganda and Karamoja require prompt responses in order to have tangible benefits to the communities facing problems described under the executive summary of this report under paragraph 4 on page 4. This implies that flexible procedures should be approved by the Commission to be applied other than the EC standard financial procedures in implementing the KALIP and ALREP programmes under the 10th EDF.

As for the 10th EDF funded sector budget support to agriculture under preparation, donors involved have conducted a joint pre-appraisal mission in January 2009. The assessment concluded that conditions are not fulfilled for a budget support, due to weaknesses in the financial management and procurement systems and to an unclear policy framework. The donors involved (EC, DANIDA, World Bank, IFAD) are now considering the possibility of setting up 3 basket funds, respectively for support to NAADS, NARO, and capacity building to the Ministry (MAAIF).

2.3.2. Non-focal sectors

9th EDF non-focal sectors (10th EDF programmes will only start in 2009)

Human Rights, Good governance, and Decentralisation

The governance field comprises of various key institutions and political processes. The key problem addressed by the 9th EDF and the planned 10th EDF programmes relates to the limited capacity of government institutions, civil society, and Ugandan citizens to enforce democratic and social accountability as a foundation for good governance. Sound governance and strengthening of multi-party parliamentary democracy has been prominently subscribed to in the strategic objectives of the 10th EDF CSP. Lessons learnt from past projects have been integrated in the design of the 10th EDF intervention that has taken place in 2008 (Democratic Governance Programme – 12 MEuro). The programme has been aligned with interventions from other EU member around the *Deepening Democracy Programme (DDP)* and together they provide substantive backing for the democratisation processes before and even beyond the 2011 milestone, the next general elections in Uganda.

Human Rights and Good Governance Programme (9 ACP UG 17 - 7 MEuro)

This programme contributed towards sustainable development centred on human security and good governance, as well as to strengthening rule of law and enhancing participation by citizens in matters pertaining to human rights and good governance. The programme has provided electoral support for the 2006 national elections. The main activities are now:

- Support to capacity building in government of Uganda agencies: the Police, the Prisons, the National Community Service Program and the Parliament,
- Support to civil society role in parliamentary governance, civic education, legal aid, gender based violence and child abuse,
- Support to Uganda Human Rights Commission setting up,

- Support to an effective monitoring of the democratic process by civil society and media.

Following some delays in procuring the required Programme Management expertise, an extension of one year has been granted for implementation of activities

Support to Commercial Justice (9ACP UG 05 – 1.95 MEuro)

Implementation of the activities under this programme was completed. The final audit has been launched and thereafter the programme will be closed. The official opening of the commercial court awaits a confirmation of the President when he can be available to officially open the building. Commissioning of Commercial Court building will take place during the first half of 2009.

Support to Decentralisation Programme (9 ACP UG - 15.10 MEuro)

The 9th EDF Support to Decentralisation Programme aims to promote institutional capacity development for local governance and sustained service delivery through support to decentralisation institutions in national and local Government and to civil society active in supporting improved Local Governance.

After a change in the implementation modality to directly support the 19 partner districts in mid 2008, the programme provides:

- Capacity building grants to Local Government in line with their District Capacity Building Plans,
- Assistance to Local Governments in budget formulation through the Local Government Finance Commission,
- Support to improved accountability and monitoring of service delivery through grants to Non State Actors (NSA) and the Uganda Local Government Association.

A one year extension of the operational period up to end of 2010 has been approved

The establishment of new districts in Uganda (26 more by 2006 and some 100 expected by end 2009) has had a negative impact on the overall project planning. More important, however, is that the continuous establishment of new Local Governments in Uganda along ethnic, cultural and political lines has caused considerable debate since it reduces resources for local governments as numbers expand and it impacts on core functions services and asset management.

Human Resources for Health (8 ACP UG 35 -17 MEuro)

This 8th EDF project (2003–2010) still remains open as its current activities concentrate in the final steps for the renovation or construction of 15 nursing schools. With the project the position of Human Resources for Health department (HRH) within GoU administration has been enhanced while administrative capabilities in the schools have also been improved. Other Development Partners including USAID, DANIDA and Irish Aid have been active in the HRH area under the coordination of AMREF.

The ROM assessment of the project has shown that overall the project has reached its objectives. The capacity of the Ministry of Health on policy formulation, planning and management has effectively been strengthened. The HRH and health training programmes have been managed properly, even though the Memorandum of Understanding between ministries of Health and Education took a while to sign due to resentments in the Ministry of Health of having lost control over the training of their cadres. The HRH information system set up at district level, however, has not progressed satisfactorily and it is not producing further reports. The development of this component was taken over by USAID.

Technical Cooperation Facility

The two TCF projects (9 ACP UG 06; 9 ACP UG 47) for a total of 6,4 MEuro have proved to be a very flexible tool in implementing operations. A total of 81 individual commitments (66 + 15) have covered from technical studies and consultancies for the preparation of 10th EDF, to organisation of conferences and audits. For most of the 43 commitments that still remain open the procedures for closure are now underway.

Support to National Authorising Officer (NAO)

The Aid Liaison Department in the Ministry of Finance Planning and Economic Development is mandated to:

- Mobilize external Resources to finance programmes that are in line with Government priorities.
- Provide information on external inflows to the Budget.
- Maintain an up to date data base on external resources.
- Initiate disbursement process for funds to Government Ministries and Departments

Based on the above mandate, the Department is responsible for coordination of all Development Partners and serves at a point of first call of Development Partner Missions.

European Union funds activities of the NAO Support Unit which is inside the Aid Liaison Department with STABEX funds (SX90CB/04/02- 2008 PE of UGShs 647,421,800).

ALD, which is handling the day to day functions of the NAO, has played a critical role in the ACP-EC dialogue, resource programming and coordinated sector discussions. The NAO support project has played a vital role in the implementation of EDF project and programs. The Unit has ensured updated data in the financial database ACOM, processed closure of completed commitments, has ensured the application of EDF procedures in procurements and contracting by implementing partners. Since the establishment of the Unit, the number and magnitude of ineligible expenditures have been minimized. The Unit spearheaded the reconciliation of STABEX balances which enabled Government and the Delegation to commit approximately €13 million in 2008. Approximately UGX 5bn counterpart funds remained uncommitted following budget savings resulting from procurement of works and services and programmes of activities of the SUFFICE Programme.

However a recent Audit of the NAO Support Unit Programme Estimate for 2007 points out to the need to improve Programme Estimates operational procedures within the Ministry of Finance. This includes the separation of roles and internal management controls. The NAO and EC Delegation have already taken necessary steps and have developed detailed financial

management procedures with clear segregation of duties effective January 2009 and NAO has communicated the specific roles and responsibilities and reporting lines of the Aid Liaison Department Officials and NAO Support Unit.

2.3.3. NSA

The partnership between Government and non-governmental organisations (NGOs) gained momentum towards a more respected and constructive relationship during 2008. While there are now more than seven thousand registered NGOs/CSOs in the country, their role in the development process of the country still has number challenges. Very critical comments have been made by political leaders in Northern Uganda on the role of NGOs, particularly international NGOs for not appropriately cooperating with Local and National Government agencies in the resettlement and rehabilitation process of the Internally Displaced Persons (IDPs).

The major CSOs and local NGOs have taken the initiative to start a dialogue with Government, particularly the Ministry of Internal Affairs and the NGO registration board on the planned legislative process. The EC has actively supported a dialogue between NGOs and Central and Local Governments on the NGO polic, setting for the first time institutional and operational guidelines for GoU –NGO cooperation.

The EC 9th EDF Civil Society Capacity Building Programme, the very first NSA programmes implemented, came to an end in December 2008. This programme has demonstrated that a large scale generic approach towards CSO capacity building is possible with rather positive results. The programme has also demonstrated that the impacts of such an approach are measurable in a fairly accurate manner. It is also relatively easy to make very fast and significant improvements in the functioning of district NGO networks, to awaken them from near death to life. To what degrees these intervention results will be sustainable is, however, very questionable.

2.4. Other cooperation

2.4.1. EDF- Regional and Intra-ACP

Private Sector Development and Trade Related Assistance. All-ACP programmes (PROINVEST, Trade.Com, BizClim, PIP)

The Delegation continued promoting the relevant activities of the above mentioned Programmes, as well as those from the EIB Private Enterprise Finance Facility (PEFF).

Support to Agricultural Research in East Africa (8 ACP ROR 14 - 29,3 MEuro)

The support to Regional Agricultural Research (ASARECA) was a pioneer approach and, over the last two years, has been confirmed as the favored instrument to support agricultural research in Africa. The creation of multi-donor Trust Funds in Western and Southern Africa, as well as for the umbrella organization Forum Africaine pour la Recherche Agricole (FARA), exemplify the appropriateness of the approach, although ASARECA has been seriously penalized by World Bank delays in establishing the Trust Fund. No new or research

activities could be undertaken in 2008 as ASARECA focused on organizational tasks and strategy refining.

Implementation of a Fisheries Management Plan for Lake Victoria (8 ACP ROR 29 - 29,9 MEuro)

The support to integrated fisheries management and the Lake Victoria's Fisheries Organization has seen somewhat mixed results. While valuable information about fisheries' stocks has been produced, the programme has failed to work effectively with communities surrounding the lake to improve the resource management. Expenditure has been largely skewed in favour of information and advocacy activities to the detriment of Beach Management Units.

Implementation of the Northern Corridor Route

The regional projects below: European Union accords high importance to matters of regional integration and its support to the rehabilitation of the Northern Corridor Route (NCR) is one of the instruments to achieve this goal. The NCR connects the peoples of the region and links the economies of East Africa and the Great Lakes region with the Indian Ocean by enabling the international transit of goods. The rehabilitation of the NCR is funded by the EC through various national projects, including the three regional below:

- *Strengthening of Northern Corridor Road (rehabilitation of the Jinja-Bugiri Road)-* Total cost: 69.2 MEuro, of which 8 MEuro from the regional project 8 ACP ROR 20
- *Construction of the Kampala Northern Bypass -* Total cost: 52.5 MEuro of which 6.5 MEuro from the regional projects 8 ACP ROR 28
- *Reconstruction of Priority sections in the Kampala-Mbarara -* Total project cost: 92 MEuro of which 5 MEuro from the regional project (9 ACP RSA 15)

2.4.2. ECHO

Humanitarian aid has been provided by the DG ECHO in Uganda so as to assist the populations of the north-central region (Acholi, Lango) and the region of Karamoja. In 2008 five financial decisions were adopted that concerned Uganda:

Decision	Amount (EUR)	Grants Awarded
ECHO/UGA/BUD/2008/01000	12,000,000	Medair, Goal, FAO, OCHA, World Vision, IRC, AVSI, Concern, ACF, UNICEF, Oxfam GB, COOPI, ICRC, Caritas DE.
ECHO/UGA/BUD/2008/02000	2,000,000	UNHCR
ECHO/-FA/ BUD/2008/0100*	5,500,000	WFP, MSF NL
ECHO/-FA/ BUD/2008/0300*	5,685,000	WFP
ECHO/-HF/ BUD/2008/0100*	3,964,603	Medair, IRC, DCA, VSF, FAO, Oxfam GB
Total	29,149,603	

*Global decision with individual grants for Uganda.

The north-central region of Uganda has suffered from a violent conflict for more than 20 years, the majority of the population of some 1.5 million being forced to live in transitional settlements for much of the last decade. The signing of a cessation of hostilities agreement in August 2006 and the initiation of a peace process has triggered a return process of the displaced populations, although many continue to live in camps. The EC has supported partners that provide assistance in the sectors of water/sanitation/hygiene, health, food aid, food security, and protection to these displaced populations while residing in IDPs camps and during the return process. The majority of the agro-pastoral population of Karamoja continues to suffer from more frequent climatic perturbations that are manifested as rainfall deficiencies and/or rainfall of an erratic nature. The EC has supported partners that provide assistance in the sectors of water/sanitation/hygiene, food aid, and food security to these populations in order to strengthen their capacities to cope with these climatic uncertainties, with particular attention to the livelihoods aspect. In 2008 ECHO has been the largest donor to the Consolidated Appeal for Uganda, providing 13.6% of the total contributions.

2.4.3. EIB

In 2008 the EIB extended a USD 6.2 m loan under the Investment Facility to New Forests Company Uganda Ltd., for a commercial tree plantation in Mubende district some 120 km northwest of Kampala. Pine and eucalyptus, which grow to maturity within 12 to 18 years, are planted on degraded former forest land leased from the National Forestry Authority. By increasing the domestic supply of wooden poles and sawn log, this sustainable forestry project will contribute to reducing illegal logging that harms Uganda's virgin forest. As another environmental benefit, the project will restore and enhance the original indigenous vegetation cover alongside river beds crossing the plantation. The project's social benefits are also significant, comprising the creation of clean water supply and building of schools in neighbouring settlements, as well as support to small scale tree planting through technical advice and distribution of seedlings to villagers in the project vicinity. The EIB provides a USD 0.8 m grant from the Investment Facility to scale-up these community development activities.

Furthermore the Bank in 2008 continued implementing its co-financing of the Bujagali Hydroelectric Project as well as its indirect lending to small and medium size private enterprises, for which financing agreements under the Investment Facility were signed in 2007.

The Bujagali Hydroelectric Project started receiving EIB funding as construction moved on of this major development, a dam and 250 MW hydropower station on the upper Nile some 10 km from the outflow of Lake Victoria. Hydropower is a renewable source of energy ranking among the priority sectors of support of the European Union and EIB. Bujagali is expected to double Uganda's electricity generation by 2011, providing the country with clean energy at a lower price than oil or gas fired plants. The construction provides employment to more than 1,000 workers recruited primarily from areas neighbouring the project site. The project's environmental and social components, which are meant to reduce and compensate for negative impacts of the Bujagali plant, include compensation for people who had to move their homes out of the project area, as well as re-forestation and creation of a protected zone of natural habitat downstream of Bujagali. Action by the project company in this field is closely monitored by the EIB and its co-financing partners, including the International Finance Corporation, African Development Bank (AfDB), Proparco, Agence Française de Développement, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden, Deutsche Investitions- und Entwicklungsgesellschaft, Kreditanstalt für Wiederaufbau as well as several commercial banks.

The Bank supported the financing of small and medium size businesses in Uganda through the "Private Enterprise Finance Facility" (PEFF) a new global line of credit concluded so far with five commercial Ugandan banks. This facility addresses the scarcity of long-term funds in the Ugandan financial markets. Its EUR 30 m envelope is available to finance loans or leasing transactions of the partner banks, for tenors usually between 5 and 10 years. Funds are available in Shillings, EUR and USD. In 2008, EUR 10 m was allocated to 11 projects in tourism, food processing, construction industry and private education. To complement the funding support that PEFF provides, the Bank is also considering the financing of technical assistance to Ugandan businesses. An advisory scheme may be launched in 2009 under the Bank's TA facility which will enable private enterprises, through their partner banks, to access comprehensive advice on important business drivers such as investment and business plans, marketing strategy or cost management.

For the future, in accordance with its mandate under the Cotonou Agreement, the Bank will explore opportunities to assist the financial sector in providing finance to private businesses and to support the development of public infrastructure of vital interest to the economy.

2.4.4. Instrument for Stability (IFS)

The overall objective of the Stability Instrument intervention is to promote peace and stability in Northern Uganda, including the Karamoja region.

Since the Financing decision for "IfS – Northern Uganda and Karamoja" was taken in December 2007, the activities under this Instrument aimed to support the Juba peace talks that were projected to lead into a Final Peace Agreement (FPA) between the GoU and the LRA delegation. The failure of signing and the military offensive by the Uganda Peoples Defence Forces (UPDF) marked definitely the end to a possible FPA monitoring component under the IfS.

In Karamoja, the situation of lawlessness and disarmament exercise continues to pose threats to peace and security. It has been identified as essential to continue discussing with Karamoja leaders possible alternatives of livelihoods and to support a civil-military dialogue as foreseen

in the IfS decision. Actions are implemented in partnership between the EC and two Non Governmental Organisations (NGOs), Save the Children in Uganda and the Africa Leadership Institute with the UPDF as a main partner in civil-military cooperation.

Preparations for the international *Ateker* Conference in June 2009 have started. With the coordination assistance of the African Leadership Institute, the *Ateker* initiative has been integrated into the International Conference on Security in the Great Lakes Region policy framework on *Disarmament of Zone 3 for nomadic pastoralists* in partnership with the Government of Uganda, Ministry of Foreign Affairs as well as Governments of Kenya and South Sudan and Ethiopia.

Actions funded under the Instrument for Stability on peace and stability include an extensive human rights and peace building training for about 2000 UPDF foot soldiers so far not been targeted by any form of training on non violent approaches in disarmament situations. UPDF is now in process of re-launching the functionality of the Civil Military Cooperation (CIMIC) within the Uganda Police and Defence Forces (UPDF) and has opened 4 Civil Military Cooperation Centres (CMCC), one per district in Karamoja. This new model of the CMCCs supported by IfS will integrate the Uganda Human Rights Commission, Police and civil society partners. UPDF Officers and Police now do undertake all community level civil military work jointly including police presence in UPDF Cordon and Search operations.

The strengthening of Child and Family Protection Police Units across Karamoja has been initiated with the training of these units' Officers in a combined UPDF and Police Training of Trainers Course undertaken in August 2008. In addition, the process of identification and construction of the 10 Child and Family Protection Police Units centres has been initiated.

A rapid assessment has been undertaken in 22 major kraals across the districts of Kaabong, Kotido, Moroto and Nakapiripirit in Karamoja. 160 candidates among mobile herders have been identified as potential Alternative Basic Education Karamoja teachers in the mobile kraals. Plans are underway for training and deployment of these teachers.

Discussions have been initiated with cooperative disarmed youth to map out all raiding routes and create a response mechanism for transforming them into peace corridors through direct youth peace dialogue with those youth that are still armed with AK47s. This aspect of IfS supported actions will compliment the UPDF civil military dialogue for peace and security under the Civil Military Cooperation arrangements.

Assessments have been undertaken to provide cash inflow projects to youth who were disarmed and certified by UPDF. These IGA assessments have been undertaken in Kotido and Moroto Districts in Karamoja. The range of income generating activities includes business schemes and community infrastructure *Cash for Work* projects.

2.4.5. Thematic Budget Lines

European Instrument for Democracy and Human Rights

The European Instrument for Democracy & Human Rights (EIDHR) contributes to the development and consolidation of democracy and respect of human rights with overall objective to support and integrate approach to democracy building, the protection and promotion of human rights, seeking to make key contribution on development, work with, for

and through civil society organizations. EIDHR supports civil society to become an effective force for dialogue and reform relying on the role of men, women and children and individuals with the power and capacity to create development.

In Uganda, EIDHR funding (over EUR 2.5 million since 2007 to-date) has complimented efforts established while avoiding creation of parallel structures, in so doing becoming a model for other similar programmes in the country.

EIDHR regional projects

The Minority Rights Group International is implementing actions to build strong, long term leadership and organizational capacity within the Batwa CBOs and NGOs in Burundi, DRC, Rwanda and Uganda. The objective is to increase effective participation and representation of Bwatwa pygmy's communities in local, national and international decision making processes that affect them. The regional training held in 2008 created a unique opportunity to share the skills and knowledge among the Batwa from all the 4 countries and also had strong synergies with the EIDHR micro funded Batwa project implemented by RWIDE in Bundibugyo district. The collaboration between the two projects strengthened the ties and contributed to a better livelihood of the Batwa in the Western and the Ruwenzori region in Uganda. The 36 month's project started in 2007 and will be ending in December 2009.

The Death Penalty project, under campaign 1, promoting justice and the rule of law, is implementing actions to restrict implementation of the death penalty in Uganda by developing strict sentencing criteria/guidelines through litigation and training strategies. The 24 month project designed to assist over 600 prisoners facing death penalty in Uganda, started in June 2007 is scheduled to end in June 2009. Since the actions commenced, activities to develop case mitigation for the re-sentencing hearings were carried out, (though another 369 people were sentenced to death, bring the total number from 547 to 916 in a period of 18 months). That notwithstanding, the Constitutional Court in the Republic of Uganda, ruled that the death sentence is legal, leaving the death penalty intact as the ultimate punishment for capital offences and hanging as a form of execution. The ruling which comes three years after the appeal is likely to see either more regular executions or a quicker decision on clemency orders from the President.

UNHCR is implementing actions in the Northern and Eastern region of Uganda, the intervention is to strengthen national local capacity to systematically monitor and effectively respond to conflict-related human rights violations. Implementation started in 2007 and will end in December 2009. During the course of the project, the implemented activities on the ground complemented and reinforced policy level action, making human rights promotion and protection a nationally owned sustainable capacity; UNHCR was able to do this, through strengthening national human rights protection systems existing in the country.

A project supporting the work of the ICC implemented by "Institute for War and Peace Reporting" covers Uganda, Sudan and DRC. The activities have ended end of 2008. The impact of this project include increasing the skills of the local journalists, media organisations, human right NGOs and promoting awareness of issues related to war crimes.

The project "Communicating Justice" implemented by BBC World Service Trust" covers Uganda, Burundi, DRC, Liberia and Sierra Leone and it is aimed at educating journalists and

raising public awareness and understanding of transitional justice mechanisms in African countries emerging from civil conflicts.

EIDHR micro projects

Two local call for proposals were launched in 2007 and 2008 respectively, under campaign 4 (advancing equality, tolerance and peace), and objective 2 of the EIDHR strategy paper 2007-2010 to strengthen the role of civil society in promoting human rights and democratic reform, facilitate the peaceful conciliation of group interests, and consolidate political participation and representation. Actions for both calls support conflict resolution and human rights, political pluralism and democratic political participation and representation, thus becoming an effective force for positive change. Seven projects were contracted: 1 (KADD-NET) started implementation late in 2007 and implementation is on course; 3 (NAYODE, RWIDE and KIND-UG) 18 months projects: started late in 2008, the delay is attributed to both projects having had on-going EC funded projects which had to be closed before they could embark on implementing new projects, while 3 (ASB, FHIR and KANRAD) will start in January 2009 for a period of 12 and 24 months respectively.

All the supported micro project actions have linked to broader political priority cooperation of the EU to promote peace and security in Uganda, as each project deals with the acute conflict resolution issues evidently prevailing in the country.

NGO Co-financing budget line

The projects financed under this budget line cover a wide range of activities throughout Uganda. The interventions have made quite an impact on the strengthening of civil society, local CBOs and local authorities. They also have contributed a great deal in giving the EC Delegation a better understanding of the difficult conditions in which the local authorities work and of the real needs of the marginalized populations. Because the grantees are International NGOs, numerous local NGOs have had the opportunity to gain experience in project management and procedures, which has had a very positive impact for the new thematic programme which is now open to local NGOs. Quite a few of these projects have been evaluated under the ROM exercise and pertinent comments as well as positive feedback have proved to be very useful for the preparation of future programs and improvement of project implementation.

All 7 on-going projects are on track, and a noticeable improvement has been observed in the timing and quality of reporting. Two projects have been closed and it is foreseen that another 3 projects will be closed during the 1st semester of 2009. The last remaining 4 projects will phase out in 2010.

Support to Non-State actors and Local Authorities in Development budget line

The 1st local Call for Proposals was launched in April 2008 under this new thematic programme and 5 projects were contracted by the end of 2008 for a total budget of 1.7 M Euro. The projects are covering the West Nile and Ruwenzori regions, thus complementing the actions financed under the 9th EDF Civil Society Capacity Building Programme. The programme's main objectives are to strengthen the capacities of local communities and civil society organisations for social accountability and resource monitoring and to strengthen accountability performance of local governments.

Health budget line

One project covering activities in Northern Uganda ended in November 2008 which leaves two on-going projects. The AMC project is aiming at building and strengthening the clinical capacity at two clinical sites in Rwanda and Uganda, to facilitate development of new drugs, prevention technologies and other interventions against HIV/AIDS, Tuberculosis and Malaria. The CUAMM projects are focussing on increasing and improving access and comprehensive reproductive health services in the Oyam District, especially for internally displaced persons.

Mines budget line

Following a local call launched in 2006, AVSI and World Vision started implementation of activities in the 4 districts of Lingo, Kitgum, Pader and Gulu (Acholiland) in Northern Uganda aiming at reducing the antipersonnel landmine risk, to alleviate mine victim suffering, and to aid their socio-economic reintegration in Northern Uganda. The EC support aimed at ensuring that the areas were safe for returnees was timely since the IDPs were already in the process of returning back to their home areas. Both projects have contributed to the improved mine awareness and safe behavior among the target population: IDPs, community members, local leaders, UPDF and Police.

Both projects significantly contributed to mine risk education and to the assistance of victims at both local and national levels. AVSI project ended in December 2008 while World Vision will be ending in March 2009. World vision project though not yet finalised was reported to be a "successful project" by the ROM conducted in 2008.

Environment budget line

The EC is funding a regional project EMPAFORM – Empowering Civil society for Participatory Forest Management, which aims at contributing to the sustainable management of natural forests and woodlands in Eastern Africa; increased access to information on forest policies; and strengthening the governance of CBOs to ensure equitable benefits from forestry. Advocacy of formation of networks for participatory forestry management has been attained.

Water Facility

Under the *1st Call for Proposals of the Water Facility*, implementation of the first grant contract was completed in October 2008 with an improved investment planning capacity for the Ugandan urban water and sanitation sector being achieved. The implementation of the second grant contract and the third programme which is managed through a pooled fund continued in 2008 albeit under a revised programme and behind the original schedule. As such, the results of increased water supply and sanitation coverage as well as improved hygiene are only starting to materialise.

Under the *2nd Call for Proposals of the Water Facility*, 2008 was effectively the first year of implementation for two grant agreements and one contribution agreement. Therefore most of the activities related to the inception phase, including baseline studies, stakeholder consultations, and project revisions to ensure the programmes are responsive to current needs. Furthermore, activities under the two Financing Agreements signed at the beginning of 2008

involved procurement under the respective programmes. As such, the results under this call for proposals will only materialise in subsequent years.

Energy Facility

The only project under the *1st Call for Proposals of the Energy Facility* commenced in early 2008. Its objective is to provide access to modern energy in Northern Uganda. The activities in 2008 mostly related to identification of target areas and beneficiaries as well as baseline and feasibility studies. The impact of the project and achievement of results is expected in subsequent project years.

Food security/food aid

Performances of the interventions in Northern Uganda funded under the Food Security Budget Line have been by and large disappointing. The Vouchers for Work scheme implemented through FAO has experienced low performance rates (about 30% of targets 6 months before end of implementation) and will need a no cost extension. Other NGOs projects (ICCO, VSF and CESVI) have had an unremarkable impact, disappointing mainly because experienced and effective implementing partners in Northern Uganda (and especially in Karamoja) are sorely needed.

2.4.6. STABEX

Following the decision to commit STABEX funds by 31 December 2008 latest, the NAO together with the Delegation ascertained the funds still available for contracting, including those decommitted from concluded and some ongoing projects. Consequently all the available STABEX funds were committed before the deadline except 3,5 MEuro that were kept in reserve to cover for exchange rate fluctuations and unforeseen expenses.

2.5. Policy Coherence for Development

Trade and private sector policies

The FY 2008/2009 budget seems to take on board more and more the recommendations made by the private sector representatives and the Competitiveness and Investment Climate Strategy Secretariat (notably the emphasis on Infrastructure). The EC support to this secretariat proved to be fruitful. GoU seems to have a better understanding of competitiveness issues years after years. Though, it is important to note that the reform agenda is not delivering as promised which frustrates the industry. Moreover, the Doing Business report (WB) and the Competitiveness Index rankings have sleep down the scale for the past 3 years. It is high time that the reform process gets some momentum. Under the 10th EDF, the Delegation therefore foresees to support the drafting/review of some commercial laws and regulations, as well as assist in enforcing these laws.

Being interested to support Standard issues in Uganda, the Delegation has faced some difficulties formulating a support under the 10th EDF due to the lack of dialogue among the main stakeholders (Ministry of Trade, Ministry of Finance, Ministry of Agriculture, and their

respective agencies). This issue is not yet resolved but parties have initiated consultations through our joint-study (EC/SIDA) to identify the gaps and formulate a support. The support programme will be designed during the second half of 2009.

Governance / anti-corruption policies

Corruption remains one of the most prominent governance issues regarding the implementation of existing policies and programs. *Findings of the National Integrity Survey III (NIS III)* established the most prevalent form of corruption as bribery (66%), largely attributed to greed (69%). This is a departure from NIS II (2003) where the main cause was low salary. The level of reporting corruption across the regions was very low and the main reason for not reporting was lack of knowledge of where to report (51%). The institutions that were rated by households to be the most corrupt were Police (88%); Traffic Police (88%); Judiciary (79.4%); Uganda Revenue Authority (77%) and District Service Commissions (74%).

In May 2008, the Judiciary established the Anti-Corruption Court as a division of the high court. This Court is mandated to exclusively handle cases of corruption and expedite their adjudication. On enforcement of anti-corruption initiatives this has remained weak especially in the lack of recovery of embezzled funds.

Regarding strengthening the legislative framework to address corruption; the Leadership Code and the PPDA Act have been impeded by inadequate verification of declarations and syndicate corruption.

On increasing active public involvement in the fight against corruption; it has been hampered by lack of knowledge of where to report corruption cases in the case of households and fear of retribution in the case of institutions.

On the objective of building sustainable systems and institutional capacities within Anti-Corruption agencies towards addressing key bottlenecks that hamper effective action; the institutions and mechanisms that have been established are still constrained by weak enforcement.

On enhancing and sustaining political support in the fight against corruption; the major impediment faced by government arises out of the need to balance political interests and effective service delivery.

Environment

Environmental sustainability is integrated as a cross-cutting issue of the EC interventions. The support to Lake Victoria Fisheries Organizations is aiming at promoting regional cooperation for the sustainable management of the lake resources. Climate change is increasingly taken into consideration: the programmes in support to the forestry sector are studying the possibility of certifying the plantations as "carbon sinks" under the Clean Development Mechanism of the Kyoto Protocol. Adaptation to Climate Change is a key dimension of ECHO's Regional Drought Preparedness Programme and of the upcoming Karamoja Livelihoods Preparedness that will aim at strengthening and securing agro-pastoral production systems in Karamoja in a context of increasingly erratic rainfall and recurrent droughts.

Gender

Gender equality is carefully regarded by the Delegation as a cross-cutting development issue and instrumental for the achievement of poverty reduction in Uganda.

The Delegation has continued to mainstream and integrate gender into its work through its programmes and projects. In the period under review, cross cutting issues including human rights and gender equality were considered to be cornerstones for achieving enduring impact on the lives and potential of poor women, men and children. These issues were highlighted, for example, in the text and evaluation guidelines of the locally launched call for proposals for different budget lines.

Several projects were supported to mainstream gender in their actions, notably the Stability Instrument project that developed tools tailored to the context of disarmament process, supporting the implementation of human rights training and sensitization of UPDF officers, Police, local government and local communities. The Delegation focal person for gender issues supported the project to mainstream gender equality during the development of the handbooks and training manuals. In collaboration with other development partners through the Donor Gender Group, the Delegation has actively participated in supporting gender equality work in Uganda and chairing the group from 2006 to June 2008.

GoU has approved an Equal Opportunity Policy and has developed a Gender Budget Manual attached as annex to the national budget framework.

2.6. Dialogue in country with national Parliaments, local authorities and NSA

Dialogue with non state actors, local governments and the national parliament takes place in Uganda mainly in the context of existing cooperation in the governance area. The closing 9th EDF Civil Society Capacity Building Programme has provided a platform for dialogue among the EC, the GoU and civil society, for example on the priorities for the 10th EDF programming, trade issues, and on the national policy framework for civil society action. The 9th EDF Support to Decentralisation Programme supports dialogue between the central government and local governments, training of local councillors countrywide, specific capacity building in up to partner districts, and builds capacity of citizens on 'downwards accountability' and local governance. The programme support to the Uganda Local Government Association, which provides a platform for dialogue with local authorities including new local party representatives, has started. Four NGOs have been contracted to support the role of NSAs in monitoring service delivery in pilot districts. Thematic budget line 'Non State Actors and Local Authorities' complement these efforts.

Concerning the parliament, the 9th EDF Human Rights and Good Governance Programme has a cooperation arrangement for capacity building and dialogue with the parliament. Main focus of actions in 2008 has again been on strengthening a framework for multi-party democracy.

2.7. Aid Effectiveness

The 10 EU Member States represented in Uganda¹⁴ as well as the Delegation of the European Commission are actively engaged in a dialogue to promote aid effectiveness principles, in line with commitments taken in the context of the Rome and Paris Declarations, the EU Code of Conduct, the European Consensus for Development, and the Uganda Joint Assistance Strategy (UJAS).

The UJAS was conceived in 2005 as a step forward towards development partner's harmonization around the Government Poverty Eradication Action Plan (PEAP) and for a better division of labour based on the comparative advantage of each donor. However, as noticed in a recent report (Dec 08) to assess the impact the UJAS has had on DP harmonisation and reduction of transaction costs, "the wider promise of UJAS of more selective and harmonised assistance supported by a common analysis embedded in Uganda's own development agenda remains very much work in progress, with some worrying signs of a reversal of improving practice in some areas". In addition, few DP regard UJAS as having had a broader impact on the workings of the Local Development Partners Group. Annex 4C reproduces the main findings of this report concerning progress in donors' harmonisation.

In addition to the overall coordination mechanism, Uganda also has Sector Wide Approaches (SWAP) in a number of sectors and is now also a signatory to the International Health Partnership and related initiatives (IHP+) Global Compact. The MoH with assistance from DPs has set up a task force to develop a road map and incorporate the IHP+ principles in the new National Health Policy (NHP II) and the Health Sector Strategic Plan (HSSP III). Particular focus shall be given to health related MDGs through increased aid effectiveness, improved policies and strategies, health systems performance, and scaled-up financial, technical and institutional support. All actions will be country-focused and country-led, building on existing structures and mechanisms. A number of detailed implementation arrangements such as the Long Term Institutional Arrangements (LTIA) for the GFATM already follow the IHP+ principles. Challenges for the coming years are the sector's capacity to implement the agreed arrangements and the commitment of all stakeholders to the IHP+ principles in the NHP II and HSSP III.

The Local Partners Development Group has continued, on the other hand, to play a role of high level focal group for exchange of information between donor in Uganda. The EC Delegation has insisted throughout 2008 about the need to link most closely DP attended technical working groups with GoU proposed structures.

A side effect of the exercise done during the last quarter 2008 on the Ugandan Division of Labour is a detailed overview of development partner involvement per sector to guide donor-government interaction over the coming year (see Annex 4A.3). It is striking that only EU MS and EC have done real efforts to streamline their involvement in sectors.

DP partners in Uganda find it challenging, however, to align headquarters / EU Parliament initiatives and programmes (i.e., various budget lines for NGO financing; thematic EC budget lines; the EU Water and Energy Facilities, etc.) with local policies and priorities. These initiatives and programmes are often in areas outside the focal area of the EC and/or the EU Member State concerned, and as such have the potential to undermine the advantages that result from Division of Labour and aid rationalisation. Furthermore, it may be difficult to

¹⁴ Austria, Belgium, Denmark, France, Germany, Ireland, Italy, Netherlands, Sweden and UK

integrate these programmes within the national development agenda: the funds are often not programmable within the context of the national poverty eradication strategy or sector programmes, they cannot be easily integrated in the country's medium-term expenditure framework and the consultation and vetting process through the sector working groups/ national development committee can usually not be complied with.

Uganda has been included by EC HQs in the list of countries for a fast-track exercise on the Division of Labour. In this respect, the Delegation has explored the conclusion of two delegated cooperation agreements with DANIDA in the agriculture and trade sectors, once the institutional audit of DANIDA will be completed in 2009.

3. ANNEXES

Annex 1 A - Country at a glance

Annex 1 B - Key macro-economic and PFM indicators

Annex 1 C – Monitoring Country Performance

Annex 1 D – PEFA summary scores

Annex 1 E - World Development Indicators

Annex 2 – Governance Profile

Annex 3 – Annual Report on Budget Support (JAF Assessment)

Annex 4 A/1 – Aid effectiveness – Donors matrix – Donor roles

Annex 4 A/2 – Aid effectiveness – Donors matrix – Financial support

Annex 4 A/3 – Donors disbursements 2008-2011

Annex 4 B 1 - Aid effectiveness Questionnaire (EAMR on Technical Facilities and PIU)

Annex 4 B 2 – Aid effectiveness Questionnaire (EAMR)

Annex 4 C – Aid effectiveness - Progress with Harmonisation – UJAS report

Annex 5 A – Financial Annex

Annex 5 B – Updated CSP Chronogramme

Annex 5 C – Financial Forecast UG – Regional

Annex 5 D – Financial Forecast - National