Sector-Wide Approaches and Decentralisation

Strategies pulling in Opposite Directions?

A Case Study from Uganda

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The authors remain responsible for the views expressed in this report and for any errors and omissions arising.

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List of Acronyms

CAO	Chief Administrative Officer
CB	Capacity Building
CFO	Chief Finance Officer
CG	Conditional Grant
DDP	District Development Project (5 District pilot for LGDP)
DSC	District Service Commission
DTB	District Tender Board
DTS	Development Transfer System
EG	Equalisation Grant
GoU	Government of Uganda
HIPC	Highly Indebted Poor Countries
IDA	International Development Agency
IPF	Indicative Planning Figure
LC	Local Council (LC5 = district, LC3 = sub-county/town council)
LG	Local Government
LGDP	Local Government Development Programme
LGFC	Local Government Finance Commission
MoES	Ministry of Education and Sports
MoFPED	Ministry of Finance Planning and Economic Development
MoH	Ministry of Health
MoLG	Ministry of Local Government
MoPS	Ministry of Public service
MTEF	Medium-Term Expenditure Framework
NGO	Non Government Organisation
O&M	Operation & Maintenance
PAC	Public Account Committee
PAF	Poverty Action Fund
PEAP	Poverty Eradication Action Plan
PMA	Programme for Modernisation of Agriculture
PMU	Programme Management Unit
PPTS	Pilot Project Transfer System
PRSC	Poverty Reduction Support Credit
PS/ST	Permanent Secretary/Secretary to Treasury
RTS	Recurrent Transfer System
SFG	School Facility Grant
SWAP	Sector-wide approach
ToRs	Terms of Reference
UCG	Unconditional Grant
UDN	Uganda Debt Network
UGS	Uganda Shillings (US$1 = UGS 1,800 Nov 2000 to Jan 2001)
ULAA	Uganda Local Authorities Association
UNCDF	United Nations Capital Development Fund
UPE	Universal Primary Education
UPPAP	Uganda Participatory Poverty Alleviation Project
WB	World Bank

Country Fact Sheet

* Political system: Movement political system

* Last national elections: March 2001 Presidential; June 2001 Parliamentary.
* Last local elections: - Lowest Local Government (Sub-county) - Jan. 2002
- Highest Local Government (District) – Feb. 2002

* Political & administrative division of country:
- *National level:* Under the President and Vice- and Prime-Ministers there are 16 Ministries incl. the Ministry of Local Government.
The Parliament is special since it has 214 Constituency Representatives who are elected in national elections, and members elected by Electoral Colleges from interest groups: 56 District Women, 10 Uganda People's Defence, 5 Youth, 5 Disabilities and 5Workers.

- *Districts/ prefectures/ provinces/ regional administrations and Local government/ municipalities*: An elaborate structure of Local Governments and Administrative Units:
Local Governments are called: in rural area's: District Councils- 56 (incl.Kampala) divided in Sub-Counties – 897; in a City: City Councils - 1 divided in City Division Councils – 5; in Municipalities: Municipal Councils – 13 divided in Municipal Divisions – 34; and in a town: Town Council. This is complemented by a structure of related Administrative Units. These Units as opposed to Local Governments described above are not body cooperates: they cannot sue or be sued.

At the lower Local Government (i.e. sub-county) representation is via elected councilors representing parishes. Parish councilors comprise the sub-county council. A number of villages constitute a parish. At the District level, the District council is composed of directly elected councilors, one for each sub-county. In addition special interest groups are represented on the District Council including: - women, youths and the Disabled persons.

* Local government representation: Uganda Local Authorities Association (ULAA)

* Social and economic indicators

People	
Population, total	24,7 million
Life expectancy at birth (years)	42.1 (2000)
Illiteracy rate, adult male (% of males 15+)	21.8
Illiteracy rate, adult female (% of females 15+)	42.0
Environment	
Surface area (sq. km)	241.0 thousand
Technology and infrastructure	
Fixed lines and mobile telephones (per 1,000 people)	11.2 (2000)
Paved roads (% of total)	n.a.
Economy	
GNI per capita, Atlas method (current US$)	280.0
GDP (current $)	5.7 billion
Inflation, GDP deflator (annual %)	3.1
Trade and finance	
Present value of debt (current US$)	984.0 million (2000)
Total debt service (% of exports of goods and services)	n.a.
Aid per capita (current US$)	36.9 (2000)

Source: World Development Indicators database, April 2002

Executive Summary

This case study is part of a larger research project exploring the influence of sector-wide approaches and related sector and budgetary support mechanisms, on processes of decentralisation.

Uganda's Commitment to Decentralisation

Uganda has chosen to implement a far-reaching and ambitious programme of decentralisation. The 1997 Local Government Act marked an important step in launching the process, acknowledging the provisions of the 1995 Constitution, which places decentralisation at the core of the country's framework of governance.

The process faces many challenges. While considerable progress has been made since 1997, advocates of decentralisation are increasingly concerned that the process is stalling and even being reversed.

Two of the more acute challenges facing decentralisation are working out an appropriate system of inter-governmental fiscal relations, and developing credible leadership and technical competence at the local level. A more fundamental challenge is demonstrating the value decentralisation brings to the fight against poverty.

Addressing these challenges requires that there is continuing and sustained support from the highest levels of office. But, there is concern that decentralisation lacks a clear policy champion and that the advocacy for decentralisation is muted. Besides the Act, there is no strategy to provide overall guidance to the decentralisation process.

The Local Government Development Programme has to date been the most important programme supporting the decentralisation process. It has tried to tackle issues of fiscal transfers, accountability and capacity development in a complementary way. In terms of approach it is highly significant and has earned widespread support, to the extent that it has provided the basis for the recently adopted fiscal decentralisation strategy.

Uganda's Commitment to Poverty Eradication

In the same year that Government passed the Local Government Act, it launched the Poverty Eradication Action Plan (PEAP); the most important policy document of the Government providing the focus and rationale of its development strategy.

The PEAP has paved the way for Uganda to access debt-relief under the Heavily Indebted Poor Countries (HIPC) initiative and has also provided the content of the country's Poverty Reduction Strategy Paper. Uganda's relative success in achieving macroeconomic stability, and its "home-grown" poverty reduction strategy, have given donors confidence to switch from project funding modalities to forms of sector and budget support, including Sector Wide Approaches.

The Poverty Action Fund (PAF) set up in 1998 channels resources from HIPC and other debt-relief funds, donor budget support and the Government's own resources, to the PEAPs five priority sectors: primary education, primary health care, water and environmental sanitation, agricultural and rural development, and rural roads. The PAF has been a key instrument in encouraging the move to sector and budget support, because it ensures that funds are channelled to the highest priority programmes under strict conditions.

But by virtue of the Local Government Act, two-thirds of PAF funds must be transferred to local authorities. The PAF has therefore become the most important resource transfer system

from central to local government, and is the principal instrument for distributing sector budgets into the local government system. It has led to a rapid increase in resource flows that is viewed as a positive and most welcome development.

For the central government, it has meant that it must depend on the performance of the local government system to utilise the bulk of PAF funds and achieve the performance targets that it has agreed with external partners. To ensure that this happens, central government has set conditions to the utilisation of PAF funds by local governments.

Herein lies the tension that the Government faces between fulfilling its commitment to driving the fight against poverty, and fulfilling its obligations to funding partners while respecting the principle of local government autonomy prescribed by the Local Government Act.

The Impact of Conditional Grants on Decentralisation

Advocates of decentralisation argue that PAF conditional grants undermine the process of developing autonomous local governments and contradict the principles of devolution enshrined in the Local Government Act. They point to the comparative advantage of the Local Government Development Programme as compared to the PAF, in terms of how it upholds the provisions of the Act, while at the same time respecting the policy priorities of PEAP. Conditional grant transfers are seen to hold back this process by undermining the autonomy granted to the local level.

Local councillors rather than being encouraged to take ownership of the local development process and to be held accountable to their constituents for their actions, remain spectators to a centralised planning and budget allocation process. Council technocrats end up the implementers of central government plans, taking instructions from their sector ministry counterparts, and become accountable to the sector ministry in the first instance.

Together, there is little incentive to take ownership of resources transferred by the Centre, nor to engage in consultative planning processes with other local stakeholders. It also encourages a compartmentalised approach to planning rather than a district-based approach.

Councils, however, acknowledge that PAF has mobilised a level of resources that is unprecedented, and appreciate the efforts of central government to attract and mobilise financial support from the donor community. The advantages brought about by SWAps in terms of bringing order into sectors and by avoiding projectised and piece-meal approaches are also recognised.

The most commonly cited justification for retaining conditional grants is that the local level lacks the capacity to assume responsibility for the effective management of resources and delivery of services. Local authorities are criticised for poor planning, poor financial management and weak technical supervision. Councillors are criticised for being either incompetent or corrupt.

As a consequence, sector programmes and the overall policies of Government risk being compromised, and the commitments made to the donor community cannot be honoured. This justifies retaining decision-making powers within central government and imposing conditions on the utilisation of resources. It is also felt that conditionalities help strengthen the performance of the councils by keeping them focused and holding them to account, and therefore should not necessarily be seen in a negative light. This discipline contributes to enhancing the capacities of local government in the longer term.

District level technocrats responsible for implementing sector programmes moreover point out that conditionalities can help ensure that local politicians do not divert resources for un-approved purposes. Some donors also argue that conditionalities are needed to ensure that a proportion of the resources channelled to the local level target non-state actors.

But where capacities are proven, it is conceded that greater discretion should be given to the local level. It is generally accepted, by the Government and donors, that the pendulum has swung too far towards a control regime with the result that the system has become both dysfunctional and inconsistent with the goals of decentralisation.

A Way Forward - The Fiscal Decentralisation Strategy

In response, the Fiscal Decentralisation study was commissioned. It revealed an interlinked set of issues ranging from concerns about the flexibility, accountability, transparency and transaction costs of present systems to their impact on local revenue raising and the decentralisation, institutional and governance objectives set out in the Constitution and local government legislation.

The Fiscal Decentralisation strategy now offers ways to accommodate the respective policy imperatives of poverty eradication and decentralisation. It proposes to simplify and rationalise the current system of fiscal transfers by establishing three transfer systems; a development transfer system, a recurrent transfer system and a pilot project transfer system.

The new systems are modelled on the current LGDP programme, and provide the basis for progressively increasing the proportion of funds that are discretionary, as capacities develop at the local level. It notes that the LGDP approach is the only transfer system specifically designed to fit Uganda's system of local government, and it therefore makes sense to build on that foundation.

The adoption of the strategy is perhaps an indicator that the Government remains committed to decentralisation, and recognises that local government has a strategic role to play in addressing poverty.

Capacity Development

The lack of certainty as to how far the Government intends to carry through the provisions of the Local Government Act, or to retain authority within the line ministries has made it extremely difficult to "design" appropriate capacity development interventions. The fundamental question is whether capacity development should aim to support a process of deconcentration or a process of decentralisation.

Capacity development at the local authority level can best be described as piecemeal. Initiatives such as the LGDP offer interesting approaches that are making a positive contribution to capacity strengthening at the local level in their own right, but these efforts are rarely well coordinated and there are doubts as to their cumulative impact.

The main objective of capacity development provided through sector programmes has been to facilitate swift implementation of its activities by the different levels of actors. Hence, we have what may be termed "*sector specific*" capacity development that addresses specific programme implementation problems and capacity gaps.

However, decentralisation viewed as a long term institutional change process, requires a more far-reaching capacity development approach that goes beyond concerns of project implementation. As such decentralisation is not only interested in sector specific capacity development but also in institutional capacity development relating to cross-cutting elements like overall management and administration, procurement, financial management, planning, human resources management, management information system etc. Such capacity issues may be called "*sector-relevant*".

Overall, there is a tendency to see capacity in terms of training and skills development, provision of tools and equipment and staff deployment. As such capacity development has focused more on immediate operational needs than on an institutional development process that takes account of the respective roles and relationships of institutions within the development process.

What Donors Can Do

Looking to the future, there is every reason to believe that SWAps need not be in tension with decentralisation. The Fiscal Decentralisation Strategy provides a basis on which SWAps can facilitate both the implementation of PEAP while reinforcing the process of decentralisation. However, to ensure that this happens, donors need to recognise the legitimate role of local government in tackling poverty and take the necessary steps to ensure that local government has the capacity to meet its obligations. Specifically, donors are encouraged to:

- Adapt their respective sector support programmes in ways that take full account of Uganda's Local Government Act, and develop strategies to improve service delivery and local governance through the strengthening of the local government system;

- Assist the Government of Uganda, in the context of Uganda's Public Service Reform Programme, to clarify the roles and responsibilities of ministries and local governments with respect to different sectors.

- Support Uganda's fiscal decentralisation strategy and channel resources through sector programmes and the budget;

- Assist the Government of Uganda in implementing the provisions of the fiscal decentralisation strategy, particularly with respect to reducing the number of conditional grants, and increasing local government discretionary powers;

- Support the Government of Uganda in developing a comprehensive and long-term strategy for local government capacity development, including support to national level institutions that support decentralisation, and ensure that resources are set aside to support the implementation of such a strategy;

- Maintain the option to provide free-standing technical assistance and capacity development support directly to local authorities that address district-wide capacity needs and which can complement the assistance provided through the national transfer system;

- Encourage the Government of Uganda and the local government to earmark resources to support the capacity strengthening of civil society and/or maintain the option to provide selective free-standing technical assistance and capacity development support directly to civil society organisations to complement the assistance provided through the national transfer system;

- Encourage multi-stakeholder participation in sector planning, monitoring and review, promote dialogue among local development actors in preparing district development plans and explore opportunities for partnerships between central and local government and non-state actors in service delivery.

1. Introduction

In 1997, Uganda's Local Government Act was passed. The Act provides a framework for implementing a far-reaching process of political, administrative and fiscal decentralisation that in time will reshape the structure of governance in the country.

At about the same time, the Ugandan government launched its Poverty Eradication Action Plan (PEAP) symbolising the commitment of the political leadership to fighting poverty. This commitment, together with achievements in maintaining macro-economic stability have encouraged donors to substantially increase their financial support to the implementation of the PEAP. This support is increasingly directed through debt relief and sector and budget support mechanisms, including sector-wide approaches (SWAps).

Tensions have however already emerged between the respective policies of decentralisation and poverty eradication. Decentralisation is a long-term institutional change process that may require a decade or more before showing concrete results. An immense amount of capacity development needs to take place to ensure that local government has the capacities and legitimacy to manage its devolved responsibilities for policy management. There is also the argument that some public goods are better provided for from the centre and that therefore decentralisation is not necessarily a panacea in terms of improving service delivery and accountability.

Meanwhile, the Government and donors are looking to achieve quick and tangible results in terms of alleviating poverty and currently do not see the local level being capable of assisting them fully in this endeavour. There has therefore been pressure to retain responsibility for planning and implementing sector programmes at the centre, and in so doing to use local government structures merely as the executing arm of line ministries.

There has been concern on all sides that the pendulum has swung too far, and that a process of decentralisation has been transformed by pressure to implement the PEAP into a process of deconcentration. The government, together with its development partners are now looking for realistic ways to press on with the implementation of the poverty eradication plan but in a way that fully embraces the letter and spirit of the Local Government Act.

1.1. Background to the Study

This case study is part of a larger research project exploring the influence that sector-wide approaches and related sector and budgetary support mechanisms, can have on processes of decentralisation. In so doing, the research examines how far such processes are compatible, the extent to which they are in tension, and if they are, how best the tensions can be managed.

Increasingly, donors, recipient governments and local stakeholders alike, have raised concern that SWAps can reinforce centralisation of power and decision-making within national administrations. As SWAps attempt to develop efficient and effective mechanisms to deliver sector programmes from the centre they risk undermining the very policies that have been designed to support decentralisation and the participation of local stakeholders through local government structures.

SWAps have been criticised, in particular, for encouraging top-down planning, and circumventing the local political process. The tendency towards a central planning approach means that instead of the centre preparing indicative policies and strategies, which the implementing managers at local level can then develop in detail, elaborate planning takes place at the centre leaving little space for local decision-makers and managers to influence the process. In so doing, the autonomy of local decision-making is undermined as the centre increasingly determines the broad shape and the detail of what is to be done at local level (Gould, 1998).

Reviews on SWAps indicate, that core capacities within central government administrations or deconcentrated management units are primarily supported in order to implement SWAps more effectively. Capacity building at the local level - where the needs are arguably even greater – is then often overlooked (Foster, 2000). The consequence is that SWAps as well as other forms of sector programming add to the already difficult challenge that local governments face in establishing themselves as credible public service institutions. This risks that local governments find themselves marginalized both in political and administrative terms.

In countries like Uganda, which continue to be heavily aid dependent, donors might enjoy a disproportionate influence over the decision-making process. Lines of accountability run increasingly from central administrations to the donor. Under such circumstances, the local level can find itself virtually cut off from policy formulation, programme design and monitoring and evaluation. This raises the spectacle that the very principles guiding SWAps - namely partnership, national execution, capacity building and participation - are undermined.

The overall picture of the involvement of non-state actors and local government in SWAps and decentralization is somewhat confusing. Comparatively little is written about the interrelationship between SWAps and decentralisation and there are no conclusive answers to what extent the two reforms undermine or support each other. This study aims to shed some light on this complex question in the context of Uganda.

1.2. The Uganda Case Study

Uganda was selected as one of several country case studies to support this research in the expectation that it would yield relevant lessons of experience of value to other countries and donor partners. This is because the issues that are of concern to this study are very real issues in Uganda today and the subject of considerable attention, debate and experimentation. These expectations were borne out and the authors are hopeful that this Uganda case offers some insights into the way in which these strategic concerns are being played out in real life.

In undertaking the study, it soon became apparent that the specific issue of concern to this research, namely the influence of SWAps on decentralisation, is part of a more generalised debate that has to do with the nature of the relationship between central and local government in an overall context of poverty, scarce financial resources, high dependence on external assistance, weak institutional capacities at all levels and a comparatively fragile political dispensation.

This begs the question as to the kind of task division that should exist between central and local levels, and how national policy priorities and local preferences can be reconciled, especially when the local level remains heavily dependent on the centre for funding.

The growing emphasis given to poverty eradication, the commitments that have been made to address the Millennium Development Goals and the new opportunities for least developed countries to re-allocate resources from debt repayment to poverty alleviation through the Poverty Reduction Strategy Paper (PRSP) and Highly Indebted Poor Countries (HIPC) initiatives, have compounded these challenges, raising questions as to where ownership and responsibility for development outcomes should lie along the centre-local continuum, and, what kind of institutional arrangements can best address poverty in a sustainable way.

Therefore, while this study explores the relationship between SWAps and decentralisation, as originally foreseen in the Terms of Reference, it also sheds light on a broader set of questions to do with centre-local relations in the fight against poverty. The research has accordingly focused primarily on the relationship between central government and district and municipal councils and has only to a lesser degree addressed questions relating to the role and participation of civil society and the private sector.

Much has been written in recent years on the experience of decentralisation in Uganda, and care must be taken not to repeat what has already been said. However, this study necessarily draws on the findings of a number of recent publications, which have looked at the issue of centre – local relations, especially with respect to fiscal decentralisation, and of the effect of donor cooperation strategies on the process of decentralisation. The availability of this literature has of course made the task of understanding this topic, that much easier. It also confirms the pertinence of this general line of enquiry both in the specific context of Uganda but more generally too.

1.3. Structure of the Report

Chapter 1 provides the background to this case study and introduces the key issues that the study aims to address.

Chapter 2 provides an overview of the decentralisation process in Uganda. It describes the main provisions of the Local Government Act and considers the challenges that face implementation of the Act. The Local Government Development Programme is presented as an example of support to the decentralisation process. The chapter concludes by considering the role of decentralisation in poverty reduction.

Chapter 3 provides an overview of Uganda's strategy for poverty reduction. It presents the Poverty Reduction Action Plan (PEAP), reflects on the trend among donors to move away from projects towards forms of sector and budget support and describes the emergence of conditional grants and the Poverty Action Fund (PAF). The implications of conditional grants on the process of decentralisation are discussed.

Chapter 4 considers the extent to which the introduction of conditional grants and sector wide approaches is undermining the process of decentralisation. It presents different perspectives on the debate; the arguments that conditional grants have undermined the process, and the arguments that conditional grants are necessary to ensure that the PEAP is effectively implemented. The role of fiscal decentralisation in mediating these competing objectives in considered.

Chapter 5 examines the way in which capacity development issues have been addressed in the context of decentralisation and sector programming. In comparing the different approaches used, and noting the innovative strategy used by the LGDP, it proposes a more holistic approach for capacity development that can accompany a long-term process of decentralisation.

Chapter 6 briefly reviews the extent to which the PEAP and sector wide approaches have encouraged participation in policy formulation and planning. This is looked at both from the perspective of the participation of local government, as well as from the perspective of civil society.

Chapter 7 provides an overall conclusion to the study and provides a number of pointers for the way forward.

2. Uganda's Commitment to Decentralisation

"The State shall be guided by the principle of decentralisation and devolution of governmental functions and powers to the people at appropriate levels where they can best manage and direct their own affairs"
(Constitution – Democratic Principles, Section II(iii).)

2.1. An Ambitious Vision for Decentralisation

Uganda has chosen to implement a far-reaching and ambitious programme of decentralisation within the framework of a unitary state. The 1997 Local Government Act marked an important step in launching the process, acknowledging the provisions of the 1995 Constitution, which places decentralisation at the core of the country's framework of governance. The 1997 Act provides a detailed legislative framework for decentralisation defines the structure of local governments and specifies their respective responsibilities and powers, as well as those of central government.

According to the Government, the main purpose of decentralisation is to improve service delivery by shifting responsibility for policy implementation to the local level; to promote good governance through emphasis on transparency and accountability in the management of public affairs; to develop, broaden and deepen political and administrative competence at local level; to facilitate democratisation by promoting inclusive, representative and gender-sensitive decision-making; and to alleviate poverty through collaborative efforts between Central and Local governments, donors, non-government organisations, community based organisations, the private sector and other stakeholders.[1]

The 1997 Local Government Act therefore devolves substantial powers, functions, and responsibilities to local government. For instance, District, municipal and town councils are expected to prepare their own development plans based on locally determined priorities, for making, approving and executing their own budgets, and for making by-laws that are consistent with the constitution and other existing laws. In addition, local authorities are mandated to hire, manage, and fire personnel. They manage their own payroll and separate personnel systems, and have their own independent District Tender Board and an independent District Service Commission.

The Act also distinguishes between the respective roles of central and local government. The role of central government is to set national policy and standards; to inspect, supervise, monitor and co-ordinate activities of local governments to ensure that they comply with national policies and standards; and to mentor and to give assistance and advice to local governments. Local governments, on the other hand, are responsible for implementing a broad range of devolved services, in addition to any others they may wish to undertake for the development of their respective jurisdictions.

Significantly, given the limited revenue earning capacity of local government, central government is required to transfer financial resources to the councils, through a system of conditional, unconditional and equalisation grants.

[1] Republic of Uganda, Decentralisation in Uganda: The Policy and Its Philosophy, Booklet # 1 (Kampala: Ministry of Local Government, May 1993); and, Republic of Uganda, Decentralisation in Uganda: The Policy and its Implications Booklet # 2 (Kampala: Ministry of Local Government, April 1994).

Box 1: The structure of Local Government

There are six levels of local government: District Councils (56), Sub-county Councils (900), City Division Councils (5), Municipal Councils (13), Municipal Division Councils (33), and Town Councils (72). There are also County (149), Parish (4,375) and Village (over 40,000) Administrative Units.

The local government system comprises two sets of officials: a popularly elected council headed by a chairperson or mayor, responsible for approving developing policies, plans and budgets; and a team of technocrats, appointed on merit, who are responsible for implementing council and central government policies, and providing technical guidance to their respective councils.

2.2. Challenges

Decentralisation in Uganda faces many challenges. It is an ambitious agenda that is testing the resolve of the Government and its partners. While considerable progress has been made since 1997 to implement the provisions of the Local Government Act, the process is far from complete. Advocates of decentralisation are increasingly raising concern that the process is stalling and even being reversed.

Two of the more acute challenges facing decentralisation are working out an appropriate system of inter-governmental fiscal relations, and developing credible leadership and technical competence at the local level. Addressing these challenges requires that there is continuing and sustained support from the highest levels of office. There is however a question mark as to the depth of political resolve and administrative support for decentralisation, and there is a sense that the initial enthusiasm that accompanied the preparation of the Act is waning as the practical consequences of devolving powers are felt, and competing policy concerns emerge. The extent of donor support for decentralisation is also not entirely clear.

There is concern that decentralisation lacks a clear policy champion and that the advocacy for decentralisation is muted. In particular, the Ministry of Local Government, which might be expected to play such a role, is reportedly weak, and has not played the proactive role in promoting the process that might be expected. This may be symptomatic of a broader loss of political support within the Government.

It has also been suggested that line ministries have not fully embraced the implications of the 1997 Act and continue to function in traditional ways as implementers, rather than facilitators of policy. Some central government bureaucrats feel threatened by the provisions of the Act, which is seen to be taking power and resources away from them, and they therefore resist change; others are simply not aware how their actions impact on the decentralisation process.

More generally, it was noted that the Government's public sector reform programme has not taken adequate account of the Local Government Act in terms of the changes required to the roles and functions of line ministries, as responsibilities, especially for service delivery, are transferred to the local level. This is an issue that one would look to the Parliamentary Sessional Committee on Public Service and Local Government to attend to.

Besides the Act, there has been no strategy document to provide overall guidance to the decentralisation process. Local Government capacity building has been a case in point although recently steps have been taken to produce a comprehensive plan (see also chapter 5). There are many separate initiatives that support decentralisation, particularly funded by donors, but there has been poor coordination of effort. The establishment of the Donor Sub-group on Decentralisation and their Working Group on Fiscal Decentralisation however represents a positive effort to promote greater dialogue among stakeholders over strategic and operational issues; in particular to establish the role that the decentralisation process can play in supporting the Government's wider objectives of poverty alleviation.

2.3. A Promising Initiative

The Local Government Development Programme (LGDP I) has to date been the most important programme supporting the decentralisation process. It has tried to tackle issues of fiscal transfers, accountability and capacity development in a complementary way (see box 2 below). In terms of approach it is highly significant and has earned widespread support, to the extent that it has provided the basis for the recently adopted fiscal decentralisation strategy (see chapter 4 for more details). However, in terms of monetary value, the LGDP I was a small programme, dwarfed by the much more significant flows emanating from the conditional grants provided under the Poverty Action Fund (discussed in the next chapter). In some Districts, for example, the LGDP accounted for no more than one twentieth of the sector budgets for the District.

Box 2: The Local Government Development Programme (LGDP)

"…***DDP-LGDP transfer system has given life to the 1997 Act through using development finance as an incentive to strengthen systems of local governance, in accordance with LG Act's provisions…*" **(Fiscal Decentralisation Study, 2001)**

The LGDP is the only transfer system specifically designed to accord with the Local Governments Act and the structure and organisation of local government in Uganda. It constitutes the most innovative instrument that Uganda has developed to devolve power to local governments over allocation and utilisation of resources.

It uses the availability of development finance to create incentives for capacity building and strengthened local governance through the mechanism of access and performance conditionalities with associated rewards and penalties. In the view of the Fiscal Decentralisation Study team, the LGDP methodology has clear benefits in terms of community involvement, local ownership, sustainability and governance building. It purposefully aims to strengthen capacities in relation to planning, budgeting, and financial management.

The LGDP draws on lessons learned from an earlier three-year project – the District Development Project (DDP) funded by the United Nations Capital Development Fund (UNCDF) and the United Nations Development Programme (UNDP) – which had been piloted in 5 districts to test the capacity of local governments to provide sustainable social services and to alleviate poverty through inclusive, participatory planning and resource allocation.

The LGDP is based on three inter-related elements: the Local Development Grant (LDG), which local governments are free to use to fund their development priorities; the capacity Building Grant (CBG), which local governments can use to build their capacity to utilise the development grant; and an incentive system which rewards improvement and penalises poor performance. In order to access the LDG local governments must meet certain minimum conditions that demonstrate readiness to undertake development management, as well as compliance with the Constitution, the Local Government Act, 1997 and the Local Government Finance and Accounting Regulations, 1998. These minimum conditions comprise having in place (a) expertise for internal audit, financial management and technical supervision of engineering works (b) an approved district development plan (c) an approved and balanced budget, and (d) up to date books of accounts. Local Governments can use the CBG to build capacity in areas in which they are deficient to enable them to qualify to access the LDG. NGOs, CBOs and the private sector can also access the CBG, provided this will be of benefit to the relevant district.

Performance Indicators used include; Quality of the 3-year development plan; Performance of the District Planning Committee (i.e. all HoDs); Staff functional capacity; Quality of communication/information sharing; Quality of monitoring function; Quality of the Lower LGs mentoring function; Quality of the capacity building effort; Quality and timeliness of accountability; Quality of local government tender board procurement/functionality; Tax collection effort.

Local governments that demonstrate improvement in performance are eligible for a 20% increase in their LDG allocations the following year, while those that show poor performance attract a 20% reduction in their allocations. Even equal performance may attract a penalty, because emphasis is placed on continuous improvement rather than merely on good performance.

The LDG is shared among local governments using the formula that is described in the Local Governments Act, 1997. The district sends 65% of the total grant to the sub-county (LC 3) calculated on the basis of population (85%) and size (15%); the sub-counties, in turn, distribute 30% of their allocation to parishes and indicative planning figures. Local governments are required to spend 80% of the funds on priority sectors under the PEAP to ensure the realisation of government's broad national objectives. However, unlike under the conditional grant system, local governments decide where and how to make the investment. Accessing the LDG requires 10% counterpart funding by the beneficiary local government, in order to promote local ownership and to stimulate local revenue generation efforts.

Source: Ministry of Local Government in coordination with the Donor Sub-Group on Decentralisation, Review of the Local Government Development Programme (LGDP), Volume 1 – Main Report (February 2002) p.2.

2.4. Decentralisation and Poverty Reduction

A more fundamental challenge facing the decentralisation process is demonstrating the value it brings to the fight against poverty. Although, decentralisation on the one hand, and the fight against poverty need not necessarily be seen as competing policy agendas, in practice, the value decentralisation brings to poverty alleviation cannot be assumed; it must be proven. For instance one commentator on the issue argues that:

"Insisting on local government autonomy may contradict more important goals, such as poverty reduction in several ways:

- *Local revenue collection may help to push people into poverty or prevent them escaping from it, if it is regressive;*
- *Local decisions made by elites may not benefit the poor;*
- *A strong revenue-based sustainability requirement may slow down investment which will reduce poverty"*

(source: DANIDA Evaluation of Rakai projec (2001)

Moreover, various alternative institutional and funding arrangements have been created to fast track the implementation of poverty reduction programmes, which place sector ministries in the front line and which therefore are inconsistent with the provisions and spirit of the Local Government Act.

This issue is further explored in the following chapters. They bring to the fore the need to clarify how far and under what conditions central government is willing to devolve responsibilities for the implementation of national policy to autonomous local governments.

3. Uganda's Commitment to Poverty Eradication

3.1. The Poverty Eradication Action Plan

In the same year that the Government passed the Local Government Act, it launched the Poverty Eradication Action Plan (PEAP). The PEAP is the most important policy document of the Government providing the focus and rationale of its development strategy. It is reviewed every three years and has been credited for having been formulated in a participatory way, including strong involvement from civil society, general consultative workshops, the receipt of written comments, and regional and political consultations.

Fighting poverty is the Government's top priority, and ultimately the extent of its support for decentralisation must be seen in this context. The PEAP includes a range of policy and strategy measures that are designed to make a significant impact on poverty eradication in the country. Since 1997, all public sector development strategies have been rooted to the PEAP. The 4 pillars of the PEAP are; 1) Fast and sustainable economic growth and structural transformation; 2) Good governance and security; 3) Increased ability of the poor to raise their incomes; 4) increased quality of the life of the poor.

The PEAP also paved the way for Uganda to access debt-relief under the Heavily Indebted Poor Countries (HIPC) initiative and has also provided the content of the country's Poverty Reduction Strategy Paper (PRSP). It is worth noting that Uganda was the first country to be declared eligible to benefit from HIPC in April 1998, and to translate debt-relief into increased financing for poverty reduction programmes. The international development community has therefore very high expectations of Uganda in setting an example for other countries to follow.

PEAP has also succeeded in mobilising additional donor resources and now enjoys substantial support from both bilateral and multilateral agencies. Moreover, Uganda's relative success in achieving macroeconomic stability, in addition to the existence of a "home-grown" poverty reduction strategy, has given donors confidence to switch from their earlier preferred project funding modalities to forms of sector and budget support, including Sector Wide Approaches SWAps[2].

3.2. From Projects to Sector-Wide Approaches and Budget Support

SWAps aim to strengthen the capacity of national institutions to manage the policy making and implementation process, as well as to strengthen ownership and systems of accountability. SWAps also seek to enhance donor coordination at the policy level, to simplify management and reporting procedures, and increase the overall effectiveness of aid[3].

In Uganda, SWAps have been developed for a number of sectors. These include the Education Sector Investment Plan (ESIP); Programme for Modernisation of Agriculture (PMA), Health Sector Support Programme(HSSP), and the Road Sector Programme (RSP). These SWAps constitute sector programmes elaborated by line ministries in cooperation with the donor community and provide a framework for implementing the PEAP objectives. They have a medium to long-term outlook, guided by a Medium Term Expenditure Framework

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[2] A recent IMF review of the Uganda PRSP notes that public expenditure management has strengthened in several respects. It notes improved targeting of resources to poverty-reducing activities, with a greater shift of public expenditure allocated to the social sectors and infrastructure, and better budgetary management. The budget has become more poverty-focused and more closely linked to expected outcomes.

[3] Further information on SWAps can be obtained from: http://www.minbuza.nl/OriginalDocuments/c_59964.pdf

(MTEF) covering periods of up to 10 years[4]. Sector programmes in turn guide the annual national budgeting exercise.

Donors participating in a SWAp work through and in close cooperation with the sector ministry, charged with the overall responsibility for setting policy lines and coordinating implementation. On the basis of negotiated priorities and detailed work plans, donors pool their resources through the Government system. The sector ministry is in turn required to provide timely financial and physical progress reports to the donors, as a basis for further disbursements. The Ministry of Finance, Planning and Economic Development (MOFPED) plays a crucial coordinating role.

Box 3: The Relationship between PEAP and SWAps

The PEAP provides a framework within which the government's planning effort is conducted. The principles set out in the PEAP guide the formulation of SWAPs, such as those which have been or are being prepared in education, health, water and agriculture, and the drafting of plans at the district level. The public expenditure implications of these SWAPs are implemented through the budget under the Medium-Term Expenditure Framework.

The links between the PEAP and SWAPs at all levels are iterative, with information flowing in both directions. The expenditure implications of the PEAP are translated into concrete spending decisions through the Medium-Term Expenditure Framework, which has been developed to provide a clear analysis of the links between inputs, outputs and outcomes while ensuring consistency of expenditure levels with overall resource constraints. Within sectors, the adoption of SWAPs allows flexible and rational use of resources, reducing duplication and the divergence of cost structure between projects and other activities.

The shift away from project support – although this still continues - towards providing forms of sector and budget support is in itself a major achievement from the point of view of donors being willing to "let go" and transfer responsibility for the management of their resources to national institutions. It also facilitates greater harmonisation of donor initiatives and simplification of disbursement, reporting and accounting procedures. But, significantly, the willingness of donors to work through national processes, and rules of accessing HIPC require that the Government meet challenging performance targets linked to poverty reduction and that they comply with rigorous financial reporting requirements. The Poverty Action Fund provides the framework for achieving this.

3.3. The Poverty Action Fund and Conditional Grants

The Poverty Action Fund (PAF) was set up in 1998 to channel resources from HIPC and other debt-relief funds, donor budget support and the Government's own resources, to five sectors that are key to poverty reduction: primary education, primary health care, water and

[4] The medium term expenditure framework is a budgeting instrument which operationalises the goals and objectives of the sector programmes in addition to other government expenditure priorities. The MTEF is a strictly 3 year rolling budget instrument which specifies government expenditure for each particular financial year and lays projections for two up front years. In other words the MTEF includes one year's specific budget allocations to different public sector expenditure priorities and an indicative allocation framework for two years ahead.

The MTEF also indicates annual and indicative revenue contributions to government budgets by donors, and national sources. The MTEF forms the interface between local and national budgeting processes. Central government's financial contributions to the decentralised level is specified via the MTEF.

environmental sanitation, agricultural and rural development, and rural roads.[5] This has led to an extraordinary rate of growth in social expenditure, with expenditures on PAF programmes growing from 17 % to 34 % of the Government of Uganda budget since 1997/98[6].

The PAF budget for 2000/01, which amounted to US$256m was financed approximately equally from HIPC and other debt savings; from donors and from the Government's own income. Noteworthy is the fact that almost 90% of the PAF is for support to the social sector, two thirds of which goes to finance primary education. The supplementary financing of the PAF (above the level the Government was providing in 1997/8), as a result of debt relief and donor budget support, has been forecast to grow five-fold in local terms from UGS 98bn. ($70m) in 1998/99 to UGS 487bn. ($250m) in 2002/03.

The PAF has been a key instrument in encouraging a number of donors to move to sector and budget support, because it ensures that funds are channelled to the highest priority programmes within the PEAP under strict conditions. Whilst the trend towards working through sector and budget support mechanisms may be viewed as a positive development from the point of view of demonstrating confidence on the part of donors in the capacity and commitment of the national administration to poverty reduction, it has raised interesting challenges with respect to decentralisation.

This is because, by virtue of the Local Government Act, two-thirds of PAF funds must be transferred to the local government level. The PAF has therefore become the most important resource transfer system from central to local government, and is the principal instrument for distributing sector budgets into the local government system. It has led to a rapid increase in resource flows that is viewed as a positive and most welcome development. But for the central government, it has meant that it must now depend on the performance of the local government system to utilise the bulk of PAF funds and achieve the performance targets that it has agreed with external partners. To ensure that this happens, central government has set conditions to the utilisation of PAF funds by local governments.

Herein lies the tension that the Government faces between on the one hand fulfilling its commitment to driving the fight against poverty, and honouring its obligations to funding partners while on the other hand respecting the principle of local government autonomy prescribed by the Act.

The following illustrates the extent to which conditional grant transfers have become the predominant source of funding for local government:

- In financial year 2000/01, 73% of the PAF was channelled as conditional grants to local government for expenditure on the recurrent and capital costs of service delivery in the PAF priority sectors.

- Three quarters of transfers for local government recurrent expenditure are in the form of conditional grants, mainly financed from the PAF. In other words, just one quarter of recurrent costs are financed through the Unconditional Grant (defined in the Constitution as the "minimum grant to run decentralised services") and the small Equalisation Grant[7].

[5] Ministry of Finance, Planning and Economic Development, **Fighting Poverty in Uganda, Poverty Action Fund: General Guidelines for the planning and operation of conditional Grant 2002** (May 2001)
[6] Fiscal Decentralisation Study (2001)
[7] Equalisation grants are defined in the Constitution (Article 193 (4)) as subsidies or special provisions *"...for the least developed districts; and shall be based on the degree to which a local government unit is lagging behind the national average standard for a particular service".*

- Over the past three years, the growth in conditional grant transfers, has led to the creation of 26 different transfer systems.

- The increase in PAF flows has also had an effect on the overall composition of local government income. On average, transfers from central government now account for some 90 per cent of all local government income. The growth of transfers is the main reason for the fall in the share of services financed by local revenue. The table below illustrates this with respect to Rakai district (See annex 2 for further elaboration on this district illustration).

Table 1: Growth trends of decentralisation funding - An example of Rakai District.

Revenue source	**1996/97**	**1997/98**	**1998/99**	**1999/00**	**2000/01**
Local sources	1,176	1,429	1,004	839	729
Central Government	3,265	4,434	6,137	7,907	8,453
Donors	5,661	5,107	820	2,917	4,500
Total revenue	10,102	10,971	7,962	11,664	13,683
% Annual growth of local revenue		21.5%	-29.7%	-16.4%	-13.1%
% Annual growth of central government contribution		35.5%	34.8%	28.8%	6.9%

(Source: Rakai District Development Plan 2001-2004)

- The conditions for each grant have been designed by the responsible line ministry, as part of their sector plans, and the Ministry of Finance has overall responsibility for what is now the major source of local government funds.

The trend is summarised quite succinctly in the recent Fiscal Decentralisation Study report (2001):

"*The growth of conditional grant financing of local government, based on guidelines developed within Line Ministries and against a background of persistently weak local revenue-raising, raises important questions about the future trajectory of the decentralisation process and the nature of governance specified in the Constitution. In brief: if present trends continue, with local governments increasingly becoming the local implementers of national sector programmes, the scope, role and justification of decentralised locally-accountable service provision, as envisioned in the Constitution and the 1997 Local Governments Act will be progressively undermined*".

The increase in conditional grants has therefore had a major influence on the decentralisation process, to the extent that it could transform a process of decentralisation into a process of deconcentration – and in so doing undermine the very basis of the local government Act. How far is this view shared ? The following section explores the different perspectives on the debate.

The allocation of the EG is calculated on the basis of household expenditure data, as a proxy for revenue capacity, and population-size, child-population and length of road-network, to proxy expenditure needs. (Source: Fiscal Decentralisation Study, 2001)

4. The Rise of Conditional Funding - A Challenge to Decentralisation ?

4.1. Perspectives on the debate

Growing concern over the proliferation of conditional grants was one of the main reasons why the Government commissioned a comprehensive review of fiscal decentralisation in the country. Before looking at the recommendations of the fiscal decentralisation study, it seems appropriate to consider the different opinions on, and perceptions of the impact of conditional grants - and more generally, of sector wide approaches - on decentralisation, particularly as expressed by local government, central government and donor stakeholders[8].

4.1.1. The Criticism of Conditional Grants

Advocates of decentralisation, and by and large, the local authorities, argue that PAF conditional grants have undermined the process of developing autonomous local governments and contradict the principles of devolution enshrined in the Local Government Act. They point to the comparative advantage of the Local Government Development Programme (LGDP) as compared to the PAF, in terms of how it upholds the provisions of the Act, while at the same time respecting the policy priorities of PEAP. They do not see a contradiction between LGDP and PEAP whereas they point to such a contradiction existing between PAF and decentralisation. They believe that LGDP has demonstrated that with adequate capacity development support, districts are able to manage their own affairs while respecting national priorities within the framework of indicative budgetary allocations. They argue that the number and extent of conditional grants needs to be reduced.

Local authorities make the point that the Act transfers responsibility for local development planning and budgeting to locally-elected councils and argue that the system of conditional grant transfers holds back this process by undermining the autonomy granted to the local level and by interfering in the local decision making process. Sector and sub-sector priorities are set, and tight spending guidelines are imposed by the sector ministries in consultation with donors leaving almost no discretion to Councils to take account of local priorities and circumstances.

Local councillors rather than being encouraged to take ownership of the local development process and to be held accountable to their constituents for their actions, remain spectators to a centralised planning and budget allocation process. Council technocrats end up the implementers of central government plans, taking instructions from their sector ministry counterparts, and become accountable to the sector ministry in the first instance rather than to their locally elected leaders. It was also noted that PAF funds are only disbursed to the level of Council headquarters (LG 5) thereby excluding the lower tiers of the local government system provided for in the Act.

One donor agreed that the system of conditional grant transfers has had the effect of transforming Councils into relatively passive recipients of central government grants over which they have little control. This creates little incentive to take ownership of these resources, nor to engage in consultative planning processes with other local stakeholders. It also emphasises a compartmentalised approach to planning discouraging district-based and cross-sector planning. It is also pointed out that the virtual guarantee of receiving resources

[8] See also Annex 1 for additional reflections on the impact of sector wide approaches on municipalities, as a distinct sphere of local government.

through the PAF, without in any way tying flows to increased local revenue has taken away the imperative to raise local revenue.

The cumulative effect is that the very processes that could contribute over time to building a strong system of local governance based on local partnership and accountability are being undermined.

Councils argue that they are best placed to translate national priorities into local development plans and that the micro-management imposed by the line ministries is inappropriate. Moreover, it is felt that the planning and allocative criteria used by sector ministries does not adequately take account of local realities. The result is that Councils are often obliged to implement actions, which they know to be inappropriate. They also point out that the sector ministries face their own capacity constraints and are simply unable to manage their sectors adequately. The demands on reporting have for instance almost resulted in procedural gridlock as the ministries struggle to process reports received from districts as a basis for disbursing funds. This results in delayed disbursements and in turn delayed implementation.

On the issue of local governments' capacity to deliver services efficiently and effectively, Councils believe that the criticism levelled at them for lacking core capacities is overstated and is used merely to justify the need for conditionalities, and for retaining control at the Centre. Moreover, they note that the PAF provides almost no resources to strengthen capacities at the local level, and that aside from the LGDP, there has been no systematic attempt to strengthen core management capacities. The capacity building that is offered is restrictive focusing on fulfilling tasks required to implement specific sector activities, (especially with respect to financial management. (This is discussed in greater detail in chapter 5).

They concede that capacity is a problem, but complain that the capacities that are in place are diverted from key implementation tasks to fulfilling reporting requirements of the more than 25 conditional grant budget lines. Local authorities are therefore concerned about the bureaucratic load of multiple procedures, bank accounts and lines of reporting.

Given the level of control associated with the conditional grant system and the serious delays experienced in receiving disbursements, some Councils value bilateral funding arrangements with donors since these allow them to exercise a degree of autonomy over priority setting that is not possible under the PAF system. They also believe that disbursements from donor projects are more efficient than through the central transfer mechanism.

Such viewpoints have to be put into perspective and it would be incorrect to suggest that Councils have little positive to say about PAF. Councils acknowledge that PAF has mobilised a level of resources that is unprecedented. They therefore express appreciation of the efforts of central government to attract and mobilise financial support from the donor community, and recognise that without these resources, there would be little that could be achieved locally. They also appreciate that a degree of conditionality is inevitable given that central government must ultimately be held to account for the nation's performance, and for the utilisation of donor resources. The advantages brought about by SWAps in terms of bringing order into sectors and by avoiding projectised and piece-meal approaches are also recognised.

4.1.2. Support for Conditional Grants

Central government and to some extent donors, look at the issue from a different perspective.

The most commonly cited justification for retaining conditional grants is that the local level lacks the capacity to assume responsibility for the effective management of resources and delivery of services. Local authorities are criticised for poor planning, poor financial management and weak technical supervision. Councillors are criticised for being either incompetent or corrupt. The argument follows that the pace of implementation is slow, standards are often poor and resources are wasted. As a consequence, sector programmes and the overall policies of Government are compromised, and the commitments made to the donor community cannot be honoured. This reality on the ground justifies retaining decision-making powers within central government and imposing strict conditions on the utilisation of resources. Conditional grants therefore serve as an important mechanism for controlling the districts and of ensuring that national priorities as reflected in the PEAP are respected. It also enables the government to satisfy the strict reporting requirements and performance targets that have been agreed with the donors.

It is also felt that conditionalities help strengthen the performance of the councils by keeping them focused and holding them to account, and therefore should not necessarily be seen in a negative light. This discipline contributes to enhancing the capacities of the local government system in the longer term. The point is made that as capacities increase, conditionalities will be reduced but that for now, there is not the confidence in the local government system for central government to feel ready to "let go".

One outside observer puts this quite succinctly:

"The devil is in the detail" – the degree to which the spirit of decentralisation is contradicted by these developments will depend on how restrictive or permissive the conditions attached to grants are. Currently the conditions are generally restrictive, and local governments benefit from substantial supervision by central ministries. This goes well beyond the technical advice and quality control, which might support devolved implementation. However, there are good reasons for the degree of control ministries have sought:

- *Local governments are being asked to implement a very substantial increase in activity very quickly across a number of sectors;*
- *Officials need guidelines on implementing these activities – they do not have the capacity to draw up their own;*
- *Local government capacity for planning and accountability is not as well developed as it needs to be to stand up to GoU or donor scrutiny.*

Were the principles of devolution to be closely adhered to, a far slower increase in the resources channelled through local government would be required, which would mean a reduced rate of development and poverty reduction. (Rakai Evaluation, 2001)

Some Council technocrats accept this line of argument. It was conceded that in the face of weak planning and technical capacities, the guidance that accompanies conditional grants is welcome, and that they do help to ensure that national priorities are respected and that, in particular, districts maintain their focus on poverty alleviation. Technocrats responsible for implementing sector programmes moreover point out that conditionalities can help ensure that local politicians do not divert resources for un-approved purposes.

Some donors share the concern about the risk of resources being diverted where systems of accountability are weak. Moreover, not all are convinced that decentralisation necessarily provides a better framework for poverty alleviation, and there is some concern that the system is motivated more to satisfy political patronage than improved service delivery. In the opinion of another commentator,

…. too much autonomy for local government in the current situation where this would essentially mean autonomy at district level, is unlikely to have big benefits for the poor, since the district elite will invest in activities to favour itself first and foremost. (Sheppard, 2001)

For as long as such doubts remain, maintaining tight control over disbursements, and insisting on strict reporting requirements is considered necessary.

Some also argue that conditionalities are needed to ensure that a proportion of the resources channelled to the local level target non-state actors. The feeling is that without such earmarking, the likelihood is that the councils would keep all the resources for themselves. Civil society and private sector stakeholders who otherwise might have enjoyed direct access to resources through district support programmes could suddenly find themselves cut off from funding.

At the operational level, there is concern over the overwhelming paper work that is generated by the many conditional grant formalities, and there is therefore interest in simplifying and streamlining the system. The Ministry of Finance is concerned about the management and accountability issues arising from a profusion of different transfer systems and bank accounts. Line Ministries are faced with major problems in dealing with quarterly reporting from a growing number of conditional grants and an increasing number of districts.

It is also conceded that where capacities are proven, greater discretion should be given to the local level. Already some line ministries such as Education are piloting efforts to reduce the number and intensity of conditionalities in selected districts. The LGDP experience, albeit limited to a small number of districts, has provided an example of alternative ways to balance control with discretion and this has helped ministries to reflect on the appropriateness of the PAF mechanism.

While the arguments for retaining conditional grants are quite clear, it is generally accepted by the Government and donors that the pendulum has swung too far towards a control regime with the result that the system has become both dysfunctional and inconsistent with the goals of decentralisation.

Donors are on balance sympathetic to the concerns of the districts and recognise that the conditional grant system does not create adequate space for local priorities and realities to be taken account of. Some acknowledge that the decentralisation process is being compromised although according to the Fiscal Decentralisation Study, the implications of PAF and SWAps on decentralisation are not sufficiently appreciated by either donors or central government. Donors do not necessarily speak with one voice and moreover perspectives on the debate differ within a single donor agency.

4.2. Finding A Balance: The recommendations of the Fiscal Decentralisation Study

The Fiscal Decentralisation study (2001) was commissioned by the Government of Uganda and the donor sub-group on decentralisation in October 2000 to address the emerging tensions between the conditional grant transfer system and the process of decentralisation. The principle task was:

"*To assist in the streamlining and strengthening of the fiscal transfer modalities between national and sub national governments in order to increase the efficiency and effectiveness of sub national governments to pursue PEAP goals within a transparent and accountable framework and in accordance with the Local Government Act, 1997*".

The study revealed an interlinked set of issues ranging from concerns about the flexibility, accountability, transparency and transaction costs of present systems to their impact on local revenue raising and the decentralisation, institutional and governance objectives set out in the Constitution and local government legislation.

The Fiscal Decentralisation strategy offers ways to accommodate the policy imperatives of poverty eradication and decentralisation, and in so doing attends to the concerns of the respective stakeholders at central and local levels. This has not, therefore, just been a technical issue, but one that has had to take account of different institutional interests.

The strategy proposes changes to the existing system of fiscal transfers in a way that provides a balance between maintaining a reasonable level of central control over the financial commitments made by the Government and its external partners while at the same time offering local authorities greater opportunity to exercise their rights as defined under the local government act with in time a gradual increase in local government autonomy. The strategy proposes to simplify and rationalise the current system of fiscal transfers by establishing three principle transfer systems; a development transfer system, a recurrent transfer system and a pilot project transfer system.

Crucially, the new transfer systems will be modelled on the current LGDP programme, and will provide the basis for progressively increasing the proportion of funds that are discretionary, as capacities develop at the local level. It notes that the DDP-LGDP approach is the only transfer system specifically designed to fit Uganda's system of local government, and it therefore makes sense to build on that foundation. Using the LGDP approach, also provides an opportunity to develop a more coherent incentives-based capacity building strategy, and also ensures that lower tiers of the local government system, below the district level, which are currently not catered for under the PAF system, are taken account of. However, it is pointed out in order to make LGDP a "national programme for fiscal decentralisation and LG development", it remains important that all districts in the country are brought, as much as possible, under the same regime. Presently, 39 out of 55 districts access the LGDP.

Box 4: The Two "Triangles of Strength"

The Fiscal Decentralisation Study (2001) argues that Uganda has two clear "Triangles of Strength" that provide the basis for the recommended system. The first triangle comprises the way in which Section II(iii) and Chapter 11 of the Constitution establishes the importance of decentralisation; the way in which the 1997 Local Government Act develops the implementation modalities of the Constitutional provisions; and the way in which the DDP-LGDP transfer system has given life to the 1997 Act through using development finance as an incentive to strengthen systems of local governance, in accordance with LG Act's provisions.

The second triangle of strength is the inter-relationship between the Government's PEAP/MTEF framework for budgetary planning, the Government's commitment to sound fiscal management and budgetary balance, and the donor confidence and support this has engendered. The three points of each triangle are mutually reinforcing, which provides a sound basis for future development.

It is recognised that it will take quite some time to fit all existing transfer mechanisms into the proposed new system, and in the interim time, parallel funding mechanisms, both through the centre, and directly with districts, will continue to operate.

Overall, the adoption of a fiscal decentralisation strategy marked an important juncture for decentralisation in Uganda. Adoption of the strategy suggests that the Government remains committed to decentralisation, and recognises that local government should play a strategic role in addressing its poverty eradication goals. In so doing, the fiscal strategy should help ensure that SWAps and similar budgetary support approaches work in closer harmony with the decentralisation process.

At the same time, some concerns have been voiced regarding how far the proposals can actually address the disharmony between sector-wide and decentralised approaches, and question how far and how quickly the Government is willing to move on decentralisation. Two limitations are noted with respect to the transfer of responsibility over the determination of financial transfers:

- The new strategy concentrates on streamlining the process of transfer of central government funds to local government. It is about reducing transaction bottlenecks, but it does not significantly address the fundamental questions of for example, how the different sectoral frameworks are determined in the first place. The new strategy will maintain the original premise of the sector wide approach such as the formulas for determining local government conditional, unconditional and equalization grants.

- The second limitation is that the new strategy does not reflect significant intentions on the part of central government to promote local level institutional capacity building (see also the next chapter). The strategy concentrates on strengthening local government financing control institutions in the form of the Local Government Finance Team (LGFT) at the Ministry of Finance comprised of representatives of line ministries, the Ministry of Finance and Ministry of Local Government. Similarly, at the line ministry level, the strategy will create another central level institution in the form of Local Government Finance Units (LGFU).

5. Taking account of the Capacity Dimension

A central issue that has been alluded to in earlier chapters concerns the relationship between local government capacity development, sector-wide approaches and decentralisation. This chapter explores this relationship in a little more detail.

5.1. Capacity Development in the context of sector-wide approaches

Capacity development is included in most sector programmes financed through the PAF and is administered as part and parcel of the conditional grant system. Such capacity development tends to focus on addressing functional capacity needs of both the sector line ministries and local governments, in order to facilitate timely and effective implementation of, and reporting on sector work plans.

Central government plays a lead role in determining needs and priorities with respect to the utilisation of capacity development funds, including prescribing the content of capacity development for local governments. By and large, this is done from the perspective of the particular needs of the sector, and there tends to be little coordination across sectors. This runs the risk of creating duplication and results in lack of harmonisation and coherence.

The education sector programme has for instance identified two priority areas for capacity development support, namely, retooling and mobilization. Districts are expected to indicate their capacity development priorities within these two broad areas. It is much the same in the health sector. The district work plans contain provisions for tools, equipment and materials, on the one hand and for training programmes of various forms including refresher courses, workshops, seminars etc. on the other.

The water and sanitation sector programme has tried to strike a balance between central control and local government discretion in the execution of capacity development activities. This is done via the Technical support units (TSUs), which the central government's Department of Water Development has established at a regional level to respond to the capacity needs of local governments. The Terms of Reference for these TSUs are stipulated by the central government and as already noted these mainly serve the purpose of ensuring timely and effective implementation of district water sector programmes.

From the above, it may be noted that capacity development that is defined from a sector perspective breaks down the capacity issues of local government into blocks of distinctive needs perceived from a single sector viewpoint. In such circumstances, districts are not able to identify in an holistic manner their capacity needs. Moreover, cross cutting issues, particularly with respect to management and accountability issues tend to be overlooked. The result is that sector programmes have over emphasised certain areas of capacity needs while ignoring others.

By retaining control at the centre, it can be argued that capacity development remains primarily supply driven and does not adequately respond to a local demand including a local process of needs identification. Focusing primarily on the delivery of inputs (training, systems, equipment) and less on a process of organisational development that fully involves local decision-makers, risks that ownership is removed from the local level and that therefore the impact will be limited. This is also compounded by the fact that capacity development is geared towards creating capacity to implement the policies of central government, and not, in this instance, to raise capacity of districts to function as devolved authorities. Critics further argue that while capacity is strengthened through various support initiatives carried out under the auspices of the sector programmes, it is at the same time undermined and weakened by the sheer number of conditional grants which has generated a multiplicity of reporting requirements (see earlier chapters).

5.2. Capacity Development in the context of Decentralisation

Several capacity development measures are being provided that support the broader process of decentralisation. The most significant is perhaps the capacity development strategy that accompanies the Local Government Development Programme (LGDP), but there are others that are provided by donors to selected districts through their respective district support programmes.

5.2.1. LGDP Capacity Development

Capacity considerations have been a critical element of the strategy of the LGDP, which has attempted to tailor capacity development to the operational requirements of the decentralisation process. The main attraction of the LGDP as a modality for promoting decentralisation has been the way it has linked investment to capacity development considerations. So unlike the sector programmes, LGDP is not an automatic transfer mechanism. Local Governments have to "earn" the funds by fulfilling a set of annual assessment conditions that are measured by the Ministry of Local Government through its Programme Management Unit (PMU). In so doing, it has made capacity development a more demand driven process that responds to incentives and penalties, and that encourages local governments to recognise their own capacity deficiencies and to take initiatives to overcome them.

The process of primary capacity assessment of local governments is not however broad-based but focuses on a few dimensions of local government functional capacity. The criteria considers the following:

- Local Government Administration - in particular the Regularity of sitting of statutory Local Government committees and councils.
- Local Government Development Planning capacity – i.e. the existence of an approved 3years rolling development plan.
- Local government financing – in particular the size and level of realization of local government revenue sources.
- Local government financial/accounting. Management capacity – i.e. up-to-date book keeping and posting of audited final books of accounts.
- Personnel Development i.e. Availability of certain key strategic managers at the local government. Such strategic staff include sub-county chiefs, sub-Accountants etc.
- Conditionalities linked to Local Government laws and regulations.

Therefore the LGDP has been commended for its compliance with decentralization rules and legal framework.

The LGDP capacity building Grant (CBG), runs parallel to the programme's local investment fund. The CBG is intended to promote the capacity of local governments to determine, plan, and manage services to meet their own capacity building requirements. Principally, the CBG is not only directed towards local government capacity requirements but also those of other services providers/producers in their administrative areas such as NGOs.

The CBG funds have been used to address the primary capacity building needs of local government i.e. those capacity building requirements related to accessing the programme's investment funds (LDF). This implies that a local government can access the CBG even if it has failed to qualify for the LDF as an incentive to build the capacities that will enable it to qualify in subsequent years.

The main attractions of the LGDP approach to capacity building are that it combines performance incentives and penalties to make it a strong mechanism for improving local government performance. It is demand-driven hence incorporating elements that supports a self-evaluative process for capacity building at the local level.

However, it too has its limitation, and like the aforementioned sector-determined capacity building initiatives, the scope is equally limited to functional capacity needs and is highly tailored to the implementation requirements of the LGDP itself. Moreover, while in principle it is stated that local governments can access the CBG even if they do not meet the minimum conditions for the investment fund, in reality the CBG has proved very difficult for the local governments to access. Capacity building funds moreover rarely reach other service providers like NGOs and the private sector. Local governments tend to exclude these actors in their capacity building programmes. Finally, local governments have found it difficult to coordinate the use of the CBG with other capacity building activities at the local level.

5.2.2. Other District level capacity development initiatives

Although many donors are working towards mainstreaming their capacity development support via the PAF and LGDP frameworks, there are a number that still support bilateral or project approaches. One such bilateral capacity development initiative that is most interesting has been DfID's decentralisation support programme (DSP). This programme aims to support decentralisation capacity needs by focusing at the policy advocacy and co-ordination levels - an area that has not been very much considered in the overall decentralisation process. The programme will aim to strengthen the capacity of the Ministry of Local Government, the Local Authorities Association and the Local Government Finance Commission to advocate for decentralisation at the national level.

Another example of a bilateral approach to capacity development is that of the Netherlands. Although The Netherlands has mainstreamed its district support programme via the LGDP framework, the capacity development component has been de-linked for consideration on a case-by-case basis. Other donors, like Danida, Austria and Ireland are planning to mainstream their district support with the LGDP using the approach of the Dutch.

Donors such as USAID and Belgium continue to provide capacity development support to districts based on specific project approaches.

5.3. Towards a More Coherent Capacity Development Approach

Capacity development at the local authority level can best be described as piecemeal. Initiatives such as the LGDP but others too offer interesting approaches that are making a positive contribution to capacity strengthening at the local level in their own right, but these efforts are rarely well coordinated and there are doubts as to their cumulative impact. Ideally, there is need for a more coherent and strategic approach.

This state of affairs is symptomatic of more fundamental issues. First, and most importantly, it reflects the underlying policy tensions between decentralisation and centrally managed sector approaches. Second, it reflects the lack of strategic thinking about capacity development in general, and of how sustainable capacities can be realised. Third, it reflects a lack of adequate consultation and coordination among the different stakeholders that are offering capacity development support.

5.3.1. Lack of Policy Coherence

The current lack of certainty as to how far the Government intends to carry through the provisions of the Local Government Act, or to retain authority within the line ministries make it extremely difficult to "design" appropriate capacity development interventions. The fundamental question is whether capacity development should aim to support a process of deconcentration or a process of decentralisation. The lack of policy congruence has resulted in "the riding of two horses syndrome" with regard to capacity development at the local level.

Current initiatives tend therefore to focus on comparatively narrow and short-term capacity needs that overlook longer-term institutional development considerations. One manifestation of this is that inadequate attention has been given to clarifying the appropriate roles and responsibilities of central and local government, many of which continue to overlap. Whereas decentralisation "relocates" the powers and responsibilities for basic service delivery to local governments, provisions have not been made to reduce such powers and responsibilities from national line ministries. By some interpretation of the law, line ministries are still mandated to deliver quality and timely services to citizens although on the other hand the decentralisation laws transfer this responsibility to local governments. There is therefore a clash of mandates.

5.3.2. Sector versus Institutional Approach

The main objective of capacity development provided through sector programmes is to facilitate swift implementation of its activities by the different levels of actors. Hence, we have what may be termed "*sector specific*" capacity development that addresses specific programme implementation problems and capacity gaps.

Decentralisation requires a more far-reaching institutional capacity development approach that goes beyond concerns of project implementation. Capacity development is perceived in a broader perspective than is the case with sector programmes. As such decentralisation is not only interested in sector specific capacity development but also in institutional capacity development relating to cross-cutting elements like overall management and administration, procurement, financial management, planning, human resources management, management information system etc. Such capacity issues may be called "*sector-relevant*".

With the lack of clear policy direction on decentralisation, and given the overwhelming financial influence of centrally-managed poverty alleviation strategies directed through such instruments as the PAF, capacity development is oriented towards "*sector specific*" approaches. Whilst the LGDP offers an alternative approach that is more closely aligned to a decentralisation mandate, it is a small programme with quite limited resources.

5.3.3. Supply vs demand driven Capacity Development

Capacity development packages provided within the framework of sector-wide approaches are more supply than demand driven. They therefore attract a reactive rather than a proactive response at the local level. Districts are presented with capacity development funds, which, in all cases, are accompanied by specific guidelines on what can and cannot be included. In such circumstances District perceive these packages as part of the earmarked sector programmes and there is therefore no sincere appraisal of their capacity needs before the allocation of these funds is done.

The other related implication is that Districts simply react to what line ministries provide and there is no genuine self-evaluation and appreciation by the districts or sub-counties of their internal capacity gaps. Such self-evaluation and appreciation of own capacity needs has been identified as a critical requisite for formulating relevant capacity development packages to support the decentralization process in Uganda. In this scenario capacity development packages would be driven by incentives at the local level instead of by supply factors.

The LGDP has been highly commended for its attempt to incorporate incentive criteria in the design of its capacity development objectives. The LGDP approach presents to local governments a set of preconditions for qualification to access development funds and incites them to take initiative and responsibility for fulfilling these requirements. This makes them take a leading role in demanding for the necessary capacity development support from the programme in order to help them qualify to get the investment funds. It is this kind of demand-driven capacity development initiative that is desirable for supporting the decentralisation process.

5.3.4. Functional vs broader capacity development concepts

Overall, and irrespective of programme, capacity development is perceived from a narrow perspective. There is a tendency to see capacity in terms of training and skills development, provision of tools and equipment and staff deployment. As such capacity development has focused more on immediate operational needs than on an institutional development process that takes account of the respective roles and relationships of institutions within the development process.

For example, while the LGDP looks at capacity development in a cross cutting manner, it still occupies itself with a few aspects of local government operational capacity such as financial management, planning, personnel etc. It does not, for instance, concern itself with the more intrinsic issue of what kind of roles and relationships should exist between central and local government and within the different tiers of local government with respect to policy development and implementation. For instance, although the decentralization law, significantly limits the role of line ministries to policy, standards and monitoring functions, there has not been any evaluation of what structures, operational procedures and modalities at this level would be ideal to handle these functions and tasks. And at another level, insufficient attention has been given to consider how government institutions could enhance their capacities by working with non-state actors of civil society and the private sector.

Insufficient attention has also been given to the question of consolidating capacity at the policy coordination level. One of the findings of this study is the obvious gap in policy advocacy for decentralisation at the national level. The Ministry of Finance and a number of the line ministries have been much more active players in the decentralisation process than the Ministry of Local Government. But as already observed some donors such as DfID are now addressing this concern.

Box 5: Capacity Development - Some Shortcomings

- Capacity development is seen in a narrow perspective;
- There is a disconnect between the intended government objectives of decentralization and the way it is operationalised. This causes some degree of ambivalence in capacity development programmes.
- Capacity development initiatives have mainly focused on operational needs instead of looking broadly at all aspects of local institutional development. The desire for quick fixes has been a more significant motivation for most capacity

development programmes. For this reason all capacity development initiatives have been for short-term (output-related) priorities rather than long-term institutional building objectives.

- There is no harmony in the implementation of capacity development at all levels. There is no coordination framework. While capacity development is problematic in both conceptual and operational terms, the impact of the various capacity development initiatives have been greatly hampered by lack of a coordination mechanism. The problem is both institutional and political. There is absence of a single machinery and institutional framework that is mandated to harmonise capacity development and secondly, one also observes a strong lack of will to co-operate and communicate on this matter between ministries.
- Capacity needs at the local level have been perceived in a homogenous way which does not take account of the real-life peculiarities of each local government. This is because capacity building has been more supply driven than demand driven.
- Capacity development at the national level has not adequately addressed the needed operational / structural needs to take care of the adjusted roles of ministries after the decentralisation law.

6. A Note on Issues of Participation

In addressing issues of centre-local relations with respect to sector-wide approaches and decentralisation, this report has implicitly tackled the question of local level participation. Yet this has been done primarily from the perspective of local government participation in the policy formulation and implementation process and less from the perspective of non-state actor participation, either at local or national level. This brief chapter raises a few additional issues with respect to the participation of local government and non-state actors in the context of sector-wide approaches and decentralisation that arose in the context of the research. –

6.1. Consultative Processes

From the perspective of central government, adequate provision has been made to ensure the participation of local actors in the formulation and review of sector policies that support the wider objectives of the PEAP. The following consultative processes and participatory mechanisms have been specifically mentioned;

- Involvement of district representatives in the formulation of mid-term sector plans. District representatives have indeed been consulted (via a series of workshops) during the formulation of all sector mid-term plans and programmes;

- Every year, two sector review sessions are organized by the line ministries to review the implementation of the sector programmes. Districts and non-governmental actors are invited to take part in these review sessions;

- Regional workshops are held at convenient sites to consult district stakeholders about their experiences in implementing the sector programmes. Some of the voices gathered from these consultative forums have influenced changes in the design of subsequent components of the sector programmes. But, as the Ministry of Education also confirmed, ministries are not always willing to accept the opinions of these because they (ministries) have got to account to the donors;

- The final allocation of sector resources are guided by the specific work plans that have been prepared by the districts according to strict guidelines set by the sector ministries. For example although line ministries allocates funds for a certain number of schools per Districts, Districts authorities decide which particular schools are to receive the funds.

- Use of local administrative processes for SWAP activities. The tendering, financial administration and accounting of PAF activities are done via local level mechanisms and procedures as provided in the local government laws.

6.2. Limits to Participation

The various efforts for mobilizing local participation in the formulation and implementation of sector programmes, not withstanding, there are a number of shortcomings that limit the full participation of local actors. These include the following:

- *Reliance on adhoc participation mechanisms*. Sector programmes have adopted ad hoc mechanisms for consultation and involvement of the local level actors in the programming of sector priorities, review and evaluation of progress and in the annual budgeting processes. Such ad hoc mechanisms include seminars, workshops as well as study missions.

  It is quite easy to comprehend the motivation for doing so. First of all, seminars and workshops are comparatively easy to organize and can be accomplished in quite a short spell of time. Second, they are non-committing since they are not statutory forums. The ministries are at liberty to accept or ignore the recommendations coming from such fora. As such, much more time and funds have been spent on organizing ad hoc seminars and workshop than on working out formal mechanisms of integrating District/Sub-County Development Plans into the national sector programming process.

- *Inverted bottom-up planning Process*: The process of sector planning subordinates the local prioritization and decision- making process. Most District Development Plans and the medium term budget frameworks that districts prepare annually reflect a response to national sector frameworks instead of being a proactive priority-making process driven by the Districts. This therefore overturns the most essential element of decentralized governance and decision-making i.e. local priorities are based on national preferences instead of the other way round. Further, as discussed earlier, the work-planning arrangements provide very small room for discretion by Districts. Ministry guidelines stipulate the smallest details of all activities to be included in the annual sector workplans that come from the District. For example District are not free to make changes across budget lines within a single activity.

- *None involvement of lower local governments and administrative units*: The PAF framework by-passes lower tiers of local government in almost all aspects of programming and execution. Although the decentralization law gives full executive powers to Sub-County Councils for development planning and financial administration, the PAF operates outside this level of government. Even the direct financial grants to services in Sub-Counties are disbursed and managed directly by the District on behalf of the central government. For example, the monthly financial grants to schools for universal primary education are disbursed directly to schools by the District Education Departments. However, there is no legal mechanism for bookkeeping and accounting of public finances at the school level.

- *Limited Opportunities for involving Non-State Actors (NSA):* The strict operational conditionalities that come attached to most sector grants prohibit local government's ability to cooperate with non-state actors. As such conditionalities restrict flexibility.

7. Conclusion

In Uganda there is said to be strong local ownership of the development process. The PEAP is a case in point, through which significant levels of financial support have been mobilised from the international community to assist national efforts to reduce poverty. But because of the sheer volume of this funding more especially as a proportion of total development expenditure, donors retain immense influence over the shaping of national policy. In this respect, they have a central part to play, along side local stakeholders, in working out how best to combine sector-wide approaches and decentralisation in the fight against poverty.

This case study has attempted to highlight the policy tensions that have arisen between supporting a national poverty eradication programme that is implemented largely through donor-financed sector programmes and budget support and at the same time facilitating a long-term process of decentralisation, that progressively devolves power to the local government level. Evidence suggests that the imperative to eradicate poverty as quickly as possible has been at the expense of decentralisation, with the result that power and responsibility has shifted back to the centre whilst the locus of decision-making and accountability resides between central government agencies and external partners.

SWAps, which have helped translate broad PEAP objectives into coordinated and funded sector specific implementation plans have no doubt contributed to this state of affairs. They have certainly contributed to asserting the legitimate role of national institutions in setting policies and determining sector strategies, and they have strengthened the management capacities of central government departments. They have also insisted on strict performance targets and financial reporting which has in part led to the proliferation of conditional grants.

But clearly, the Government has the final word on the extent to which it would like to push the decentralisation process forward and there are indications that the enthusiasm that accompanied the passing of the Local Government Act in 1997 is no longer so strong. Local political considerations are therefore likely to have more of an impact on how far decentralisation is carried through than the influence of any donor cooperation instrument such as SWAps. Under present circumstances, SWAps can be said to have reinforced a stalling of the decentralisation process and its gradual transformation into a system of administrative deconcentration.

But that may now be changing. The submission of the Fiscal Decentralisation Strategy has provided a timely opportunity for all stakeholders to reflect on the role that decentralisation should play in the country's fight against poverty. The adoption of the Strategy by Parliament is perhaps an indicator of the Government's rekindled commitment to decentralisation, and acknowledgement of the role decentralisation must play in implementing the PEAP. The strategy, however, reflects pragmatism, rather than idealism, and recognises that the empowerment of local government will depend on a long-term process of transformation and capacity development support. It nevertheless provides a framework within which advocates of decentralisation should be confident that the process is very much alive, whilst central government planners and donor partners are assured that the necessary checks and balances remain in place to ensure that in the shorter term PEAP goals are met.

With this framework in place, there is every reason to believe that SWAPs need not be in tension with decentralisation, and that on the contrary, they can contribute to strengthening the local government system. For donors, this means acknowledging the legitimate role of local government in tackling poverty and thereafter taking steps to ensure that local government has the capacity to meet its obligations. Specifically, donors are encouraged to:

- Adapt their respective sector support programmes in ways that take full account of Uganda's Local Government Act, and develop strategies to improve service delivery and local governance through the strengthening of the local government system. In this regard, the establishment of parallel structures, such as Project Implementation Units, or deconcentrated units of central government should be avoided;

- Assist the Government of Uganda, in the context of Uganda's Public Service Reform Programme, to clarify the roles and responsibilities of ministries and local governments with respect to different sectors.

- Support Uganda's fiscal decentralisation strategy and channel resources through sector programmes and the budget;

- Assist the Government of Uganda in implementing the provisions of the fiscal decentralisation strategy, particularly with respect to reducing the number of conditional grants, and increasing local government discretionary powers;

- Support the Government of Uganda in developing a comprehensive and long-term strategy for local government capacity development, including support to national level institutions that support decentralisation, and ensure that resources are set aside to support the implementation of such a strategy;

- Maintain the option, especially in the short term, to provide free-standing technical assistance and capacity development support directly to local authorities that address district-wide capacity needs and which can complement the assistance provided through the national transfer system;

- Encourage the Government of Uganda and the local government to earmark resources to support the capacity strengthening of civil society and/or maintain the option to provide selective free-standing technical assistance and capacity development support directly to civil society organisations to complement the assistance provided through the national transfer system;

- Encourage multi-stakeholder participation in sector planning, monitoring and review, (eg: as per experiences in the health sector) promote dialogue among local development actors in preparing district development plans and explore opportunities for partnerships between central and local government and non-state actors in service delivery.

Annex 1: Insights on Sector Programmes and Municipal Local Government.

Urban Authorities constitute a distinct category of local government. They work under different circumstances, and have priorities, which are different from those of Districts. However in principle the relationship between sector line ministries and municipal (or generally speaking urban) local government in the operation of sector programmes is much the same as in rural local governments. There are uniform sector planning and budgeting frameworks for both rural and urban local governments as well as uniform guidelines and standards.

Every year urban authorities receive sector grants from the line ministries under conditions and standards that are similar to those of Districts. However, this is mainly so for cities and municipal councils. Town councils (which are the lowest level of urban authorities in Uganda) are not treated as autonomous as the other two levels.

Town Councils receive funding for only two sector programmes namely water and roads. The other sector programmes of health, education, production etc are not directly controlled by Town councils but by District Councils. This obviously restricts the discretionary powers of this local government level to fully manage its budget/ plans.

In addition, there are a number of other kinds of limitations facing municipalities in operating SWAps. These include the following;

(a) Higher levels of need than what is covered by SWAps.

Municipalities face higher levels of needs than what is presently provided for under sector programmes. For example, while roads sector programmes cover feeder roads, much of the road network in urban centres is tarmac. However, municipalities cannot use roads sector funding to work on tarmac roads because the guidelines prohibit this. Many urban councils are being compelled to renovate tarmac roads using gravel materials hence conflicting with the urban authorities standards/ regulations.

(b) Different priorities.

Besides the higher level of needs, municipalities also face different priorities that cannot be funded under the present five-priority sector programmes of Water, Education, Roads, Agriculture Production and Primary Health. The peculiar priorities for municipalities include street lighting, garbage collection/ waste disposal, traffic management etc.. These are the top priority expenditure lines for most urban councils, but unfortunately, municipalities cannot operate / deliver these services using sector funds.

(c) Budget discrimination.

Municipalities have also complained of unfair budget discrimination as a result of applying “blanket” sector guidelines/ conditionality. For example, municipalities are not eligible to receive funding for provision of primary teachers houses just because it is assumed that the supply of residential houses by the private sector is adequate in urban areas. However while this assumption is valid, it is also true that the small teachers salary cannot enable teachers to rent residential houses from the open market. As such the supply of teachers in government-funded primary schools is surprisingly lower in urban authorities than in rural districts. Unfortunately the sector programmes do not take consideration of any such local circumstances other than those stipulated in national sector guidelines.

d) Wrong basis for determination of sector allocations.

Most programmes base their budget allocations to local government upon the level of population in each local government jurisdiction. This in true for rural as well as for urban local governments. However, for most urban authorities the population statistics used is most times inaccurate. This is because it covers only residents and ignores the almost double day populations (commuters), which municipalities have got to handle.

e) Rigidity of most sector based activities.

Municipalities have also complained of excessive rigidities in the planning and execution of most sector-based programmes. For example, it is not practically possible for municipalities to use sector programme funds to counter-fund other donors activities (even when such activities fall under the same sector).

Linking Municipal Institutional Cooperation (MIC) and Sector Programmes

A number of Municipalities/ Urban Councils in Uganda are engaged in MIC programmes with Cities/Municipalities in the North. These MIC programmes have been run parallel to the Sector programmes. Overall, the relationship between Sector programmes and MIC programmes has been characterized by both complementarity and supplementarity values. But there have also been some cases of conflict.

a) Complementarity:

MIC has involved a number of objectives ranging from project funding, to exchange programmes, on technical cooperation etc. The biggest complementarity values between Sector- programme and MIC has been reflected via technical cooperation. Under technical cooperation, Municipalities in Uganda have had access to additional knowledge, skills and competencies from Cities/Municipalities from the North. Externally-sourced technical advisers have supported these Municipalities to implement Sector programmes. But the support has also come in the form of on job training, provision of tools and appropriate technology etc offered to the Ugandan Municipalities by their Northern Partners. Such support has made significant contributions to bridging the capacity gaps in these Local Governments. Most of these capacities would otherwise be procured from the open market, which would imply extra burdens to the meager local resources.

However, overall, the level of complementarity has been negatively affected by the present Sector limitations already observed. For example, the biggest part of TA secured under MIC has been in areas outside PAF Sectors priority areas such as street lighting, traffic control, garbage management etc. These areas are not part of the Sector priorities.

b) Supplementarity:

The biggest impact in the relationship between SWAps and MIC programmes at the Municipality level has been reflected in the form of additional resources for service delivery that has come to supplement the Sector programme funds at the Municipalities. MIC has offered additional competencies to Municipalities to deliver other none-PAF programme priorities. As already observed a number of top priorities for Municipalities are not included as PAF priority areas. As such MIC has been a vital supplement to the Sector programmes.

Most Municipal Government Officials contacted have expressed budget supplementarity as being the most desirable objective for MIC. The conditionalities and the associated inflexibility that goes with most Sector programmes have been the main forces behind this kind of view. Project funding is, however, becoming a less and less significant objective in most MIC programmes. A lot more emphasis is shifting to capacity building/technical cooperation/management objectives than project funding. In this case, although highly regarded by most stakeholders in the South, Budget supplementarity is becoming a less and less common basis for MIC.

c) Conflicts:

There are also areas of conflicting relationship between MIC and Sector programmes at the local level. As already observed, the biggest source of conflict is the rigidity experienced in most Sector programmes. For example, it has been reported that it is extremely difficult to use funds provided by Sector programmes to co-finance any MIC activities.

How can MIC reinforce Sector Programmes?

1. Offers inspiration to good Governance.

In Uganda today, good Local Governance underpins Sector development initiatives undertaken at various levels. But on the contrary, most Sector programmes do not directly incorporate governance issues (despite the fact that good governance has been listed as one of the policy objectives of the Government PEAP). The biggest short fall for most Sector programmes with regard to promotion of good governance is the fact that most of those programmes are driven by the centre.

MIC therefore promised some degree of independence from state control. As such it has been listed as one way of promoting effective good governance. However, this is only if MIC can maximally promote and enhance effective participation and involvement of the civil society in matters of public management and development.

It is therefore strongly recommended that the designing of MIC integrates cooperation at the civil society/ private sector levels. They should also include deliberate initiatives to elevate the role of civil society in the decision-making process.

2. Supply the necessary capacity.

This could be in the form of the vital human skills or technological know-how that is so essentially needed to have effective implementation of sector programmes at the local level.

Annex 2: Resources Potential for Districts – The Case of Rakai

District Councils in Uganda have potential access to the following funding sources:

(i) Local (own) revenue
(ii) Unconditional grants
(iii) Conditional grants
(iv) Equalisation grants
(v) Local government development fund
(vi) Direct donor grants

Sources (ii) - iv) reflect typical central government funding mechanisms for decentralised services. The conditional and un-conditional grants are more typical because all District councils do access these funds. Equalisation and LGDF have been accessed by a few selected Districts.

All the same, taken together, central government funding represents the biggest source of funding to local governments. The other important source is the local revenues, which comprises local taxes, fees and licenses etc. Unfortunately, local revenue occupies a declining proportion of local government resources. This is unfortunate to the decentralisation process because with it goes the discretionary power of local governments. As can be seen from the example below from Rakai District, the biggest part of central government and donor funds are conditional. Even the unconditional grant is not wholly unconditional. Because although central government releases these funds a little more freely to local governments, most local governments have had to allocate over 90% of the unconditional funds to salaries. Central government ministries dictate staffing levels for Districts and their salary grades. So although unconditional grants are not earmarked directly by central government, they are nonetheless conditioned by circumstances.

Table A1: Sources of funding for District budget - example of Rakai District 2001/2002 financial year.

(Figures in million Uganda shillings**)**

Revenue Source	Recurrent	Capital	Total	% Total Revenue
Local Revenue	402	0	402	2.7
Unconditional Grants	1878	0	1878	12.7
Conditional Grants	9310	1829	11139	75
LGDP	0	0	0	0
Donor Funds	1148	210	1358	9.1
Total	12738	2116	14854	100

(Sources : Rakai District Finance Office)

As can be seen from the above table Rakai District has only about 15% discretionary power over its budget. This is represented by local revenue and unconditional grants. But as already stated, unconditional grants are not entirely free. Equalisation grants do portray" restricted freedom" because Local Governments are only allowed to allocate it to the five Central Government policy priority areas.

Over the year's local government discretionary powers over their budgets has been declining as central government increases its contribution to Districts. The table below reflects the growth trends of all revenue sources for Rakai District Local Government over 5 years.

Table A2: Growth trends of decentralisation funding - An example of Rakai District.

Revenue source	**1996/97**	**1997/98**	**1998/99**	**1999/00**	**2000/01**
Local sources	1,176	1,429	1,004	839	729
Central Government	3,265	4,434	6,137	7,907	8,453
Donors	5,661	5,107	820	2,917	4,500
Total revenue	10,102	10,971	7,962	11,664	13,683
% Annual growth of local revenue		21.5%	-29.7%	-16.4%	-13.1%
% Annual growth of central government contribution		35.5%	34.8%	28.8%	6.9%

(Source: Rakai District Development Plan 2001-2004)

Since as we saw in table I above, conditional grants account for over 75% of central government transfers, the increased central government contribution to local budget has been inversely related to the growth of local government discretionary powers.

Table 2 demonstrates the real dangers to decentralisation. It shows that while there is a substantial growth in the proportion of conditional grants available to Districts, at the same time their own revenue has been negatively growing. Most of the factors contributing to the fall of Local revenue fall outside the control of Local Governments since most of them relate to the national political process. As such Local Governments do not have much ability to pull up local revenue however much they try. This therefore leaves one option. That is that Central Government contribution should be made more responsive to decentralisation by providing a growing level of discretionary power to Local Governments.

Annex 3: List of Persons Met

Government of Uganda

- Martin Onyach-Olaa: Local Government Development Programme – Programme Management Unit, Decentralisation Secretariat, Ministry of Local Government
- Wanambi: Ministry of Finance, Planning and Economic Development
- Godfrey Dhatemwa: Assistant Commissioner (Planning & Budgeting), Ministry of Education & Sports
- I. Magona: Commissioner Ministry of Finance Planning and Economic Development
- Keith Muhakanizi: Director Economic Affairs, Ministry of Finance and Economic Development

Local Authorities

Jinja Municipality

- Nnume Yassin abubaker: Senior Internal Auditor
- Kakuze Tabitha: Senior Asst. Land officer/Ag.MPP
- Dan Kabuleta: Ag. Municipal Treasurer
- Dathan Wamuzibira: Municipal Engineer
- Gwandhaye David: Finance Officer
- G.M. Gidudu: Principal Health Insp. Rep. MOH
- Waibi George S.: Finance Officer
- Bamuganga P.J: Committee Clerk
- Waidhuuba Jofram: Sen. Asst. Town Clerk
- Ben Kulaba: Asst. TC & Prog. Co-ordinators
- Edson Mpango: Deputy Municipal Engineer
- Eliot Kisige: Engineering Asst. Works
- Eberu Esther: Senior Educ. Officer
- Ernest Nabihamba: Ag. Senior Environment Officer and Urban Planner
- Kato Simon P.: Public Relation Officer
- David Kigenyi – Naluwairo: Town Clerk

Mukono District Council

- Mr. Sonko: district planner
- Mr. Kalanzi Sewanyana: District Education Officer
- Mr. Obel Wodo Okech: District Inspector of Schools
- Mr. Francis Ssempijja: office Administrator, Education Department
- Dr. Mukulu: District Extension co-ordinator
- D. Mutumba: District PAF co-ordinator, Agriculture Dept

Jinja District Council

- Dr. Ssentamu: district Veterinary Officer
- Mr. Mubiru M.K: District Planner
- Mr. Were A.: District Education Officer
- Mr. Wekiya P.: District Internal Auditor
- Mr. Kisige: Senior Agriculture Officer

Masaka District Council

- Mr. V. Ssempijja, Chairman L.C.V
- Mr. Mayanja G., District Planner/LGDP co-ordinator

Local Authority Associations

- Sebastian Ochieng – Administrative Secretary, Urban Authorities Association of Uganda
- Mr. Alfred Ogwanga, Economist, ULAA

Non-Governmental Organisations

- Prof. Kwesiga – DENIVA

Parliament

- Hon. Byenkya Beatrice Nyakaisiki: Chair, Sessional Committee on Public Service and Local Government
- Hon. Anthony Yiga: MP Kalungu County West Masaka District
- Hon. Mathias Kasamba: MP Kakuuto Constituency, Rakai District

Donor Organisations

- Rein Koelstra: First Secretary, Local Governance, Royal Netherlands Embassy (DGIS)
- Jean-Marc Ruis: Governance Advisor, Delegation of the European Commission (EC)
- Daniel Iga: Programme Officer, Royal Danish Embassy (DANIDA)
- Wim Stoffers: Programme Officer, Netherlands Development Organisation (SNV)
- Gerard Nieuwe Weme: Country Director, Netherlands Development Organisation (SNV)
- Tibikoma Annet Mpabulungi: Programme Analyst, United Nations Capital Development Fund, UNCDF
- Tim Williams: Governance Advisor, DFID
- Sean Hoy: Development Attache, Embassy of Ireland
- Jos Kalders: 1st Secretary Development Cooperation - Embassy of Belgium
- Robert Blake: Country Programme Manager - World Bank

Others

- Emmanuel Ssewankambo – Consultant/Director Mentor Consult Ltd

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