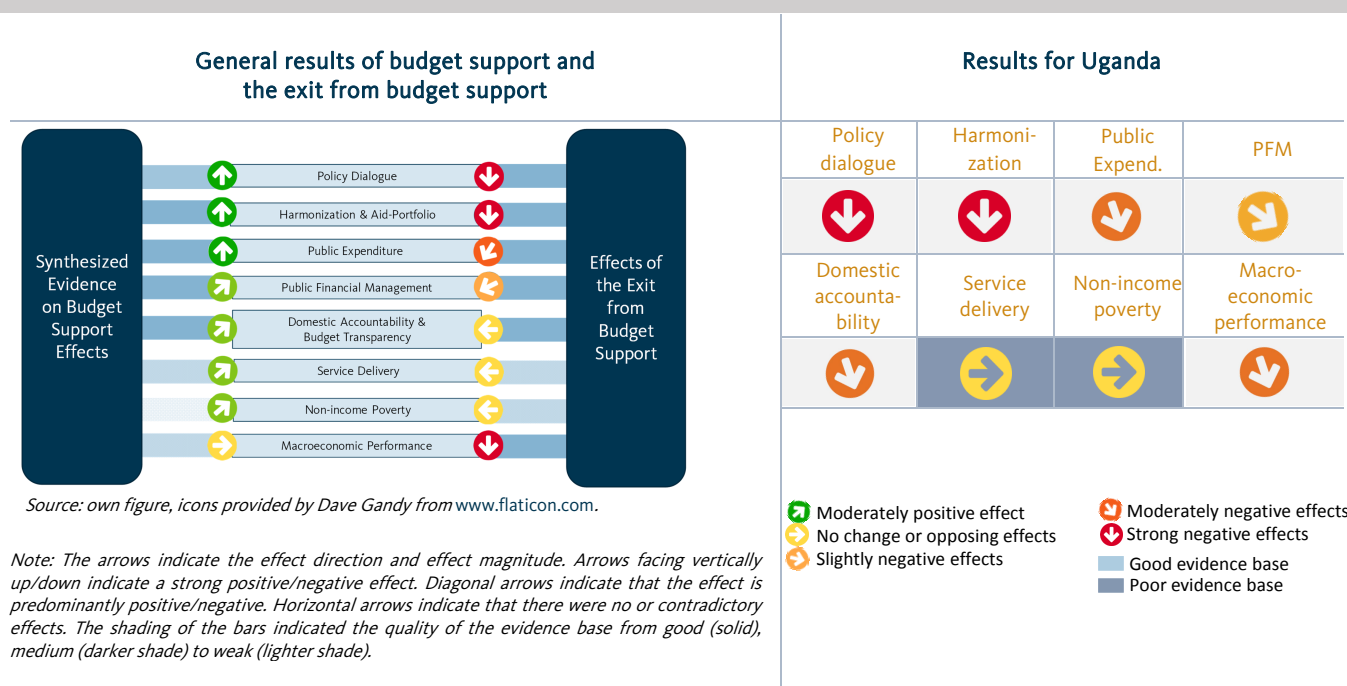


THE EFFECTS OF THE EXIT FROM BUDGET SUPPORT IN UGANDA

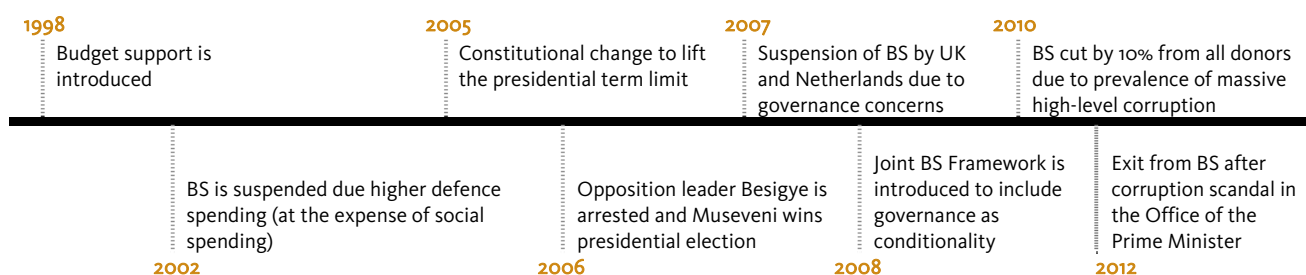
This 'country sheet' is a summary of findings on Uganda from the evaluation on the future of integrated policy-based development: lessons from the exit from general budget support (GBS). The larger evaluation analyses the exit from GBS in the country cases of Malawi, Rwanda, Uganda and Zambia, and compares the effects observed post-exit to effects during the budget support (BS) period examined in previous evaluations and lately corroborated in DEval's evaluation synthesis on the effectiveness of BS (Orth et al., 2017).

Evaluations across many countries during the GBS period found mostly positive effects (see figure below). These positive effects stand in contrast to the post-exit negative developments. In Uganda, the evaluation found negative effects of the exit from budget support. Only for service delivery and non-income poverty, the data does not show a negative tendency until now.



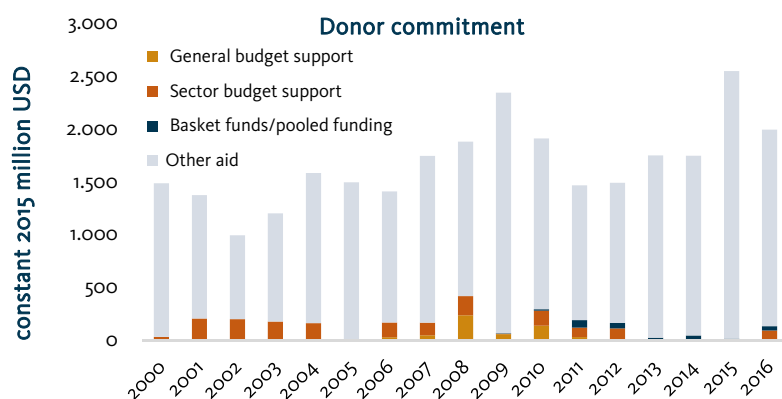
Prior to 2012, Uganda went through successive phases of GBS suspensions due to poor performance in terms of democratization and macroeconomics. In 2002, most donors – including the two largest donors, the World Bank and the UK – suspended GBS payments after the Government of Uganda (GoU) had announced to cut the budget of several ministries to ramp up the defence allocation. Between 2005 and 2007, donor discontent with the national budget triggered smaller GBS suspensions or cuts. In 2006, prior to the general elections, President Museveni modified the constitution to run for a third term and imprisoned the leading opposition candidate. In response to these actions, many donors suspended their GBS disbursements, although democratization was not part of the conditionalities.

In 2012, the involvement of the Prime Minister's Office in a massive corruption scandal and plans of the government to implement a law criminalizing homosexuality led donors to first suspend and later exit GBS. It was discovered that USD 15 million had been diverted from a recovery programme for Northern Uganda to the Office of the Prime Minister. Donors responded resolutely because – even though it was not the largest corruption scandal since 1998 – it involved the direct misuse of external funds. Already in 2010, donors responded to the pervasive high level of corruption. Germany for example cut its budget support (BS) payments by 10% on these grounds. The total volume of freezes in aid by donors is estimated to be worth USD 372 million, equivalent to around 5% of the government budget.



Source: own figure.

Changes in aid portfolio, policy dialogue and harmonization



Source: OECD Creditor Reporting System.

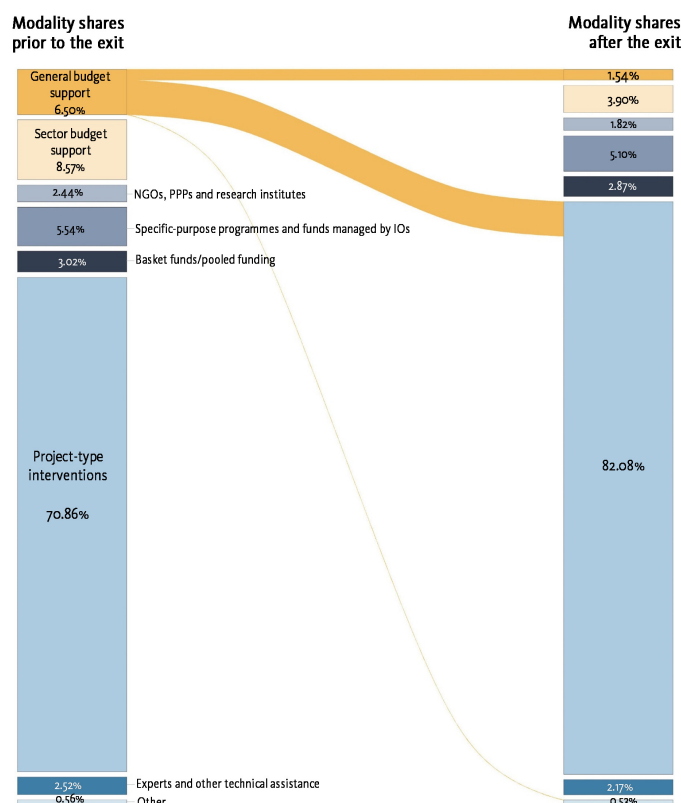
GBS funds constituted up to 29% of the total government revenue between 2004 and 2014, but declined over time. The aid budget has been restructured since the exit from GBS towards project-type interventions. In 2012, the aid budget was significantly reduced due to the exit from GBS and because aid was not immediately reprogrammed. Once reprogrammed, the aid focus shifted mostly towards project-type interventions. Regardless of the absence of GBS, the level of total official development assistance (ODA) inflows quickly reached levels similar to the

GBS period and has been higher than ever before in 2015.

Since the exit, there is less government involvement in donors' programmes and less donor involvement in government decisions due to a collapse in dialogue structures, especially the high-level political dialogue. Although other dialogue forums still exist, including the EU Article 8 dialogue or the National Partnership forum, they are either less inclusive or provide lower quality dialogue than the former BS high-level political meeting and do not cover macroeconomic and budget-related issues. The GoU seems to be rather pursuing a sector-dialogue approach with 16 sector working group (SWG) still in place. However, the effectiveness of the SWGs varies strongly and the dialogue is often fragmented and incoherent. One exception is the dialogue on PFM-related subjects, which offers quality dialogue on the topic.

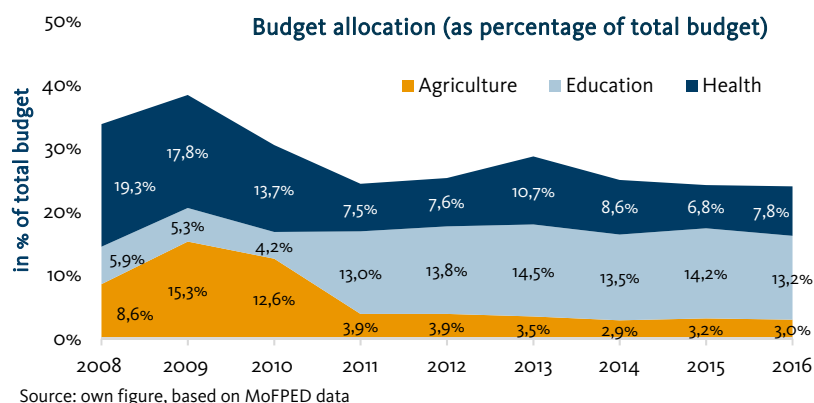
Ending GBS weakened the harmonization among donors, even though coordination forums for public financial management (PFM) and the Local Development Partner Group (LDGP) still exist. With the shift towards more project-type interventions in the aid portfolio, there is a lack of harmonization in the sectors. This is the most severe impact of ending GBS. A notable exception is the PFM Basket Fund and the complementary LDGP, which stand out as still functional coordination forums, providing some harmonization at the sectoral level.

Shares of aid modalities before and after the exit



Source: own figure, based on OECD Creditor Reporting System.

Public expenditure



Since the exit, the share of budget allocations into health and agriculture decreased. The five-year average for the share of allocations for agriculture and health in the total budget decreased by roughly 5 percentage points after the exit (2013–17) compared to the average five years prior to the exit (2008–12). The budget for the education sector, on the other hand, increased by roughly 5 percentage points over the same periods. It should be noted, however, that this increase is driven by an extremely low education budget from 2008

to 2010, when the education budget represented only 5% of the total budget compared to 14% just before the exit (see figure above). Before the exit, BS contributed to increase the level of expenditure in the education, health and agriculture sector.

Public finance management

Effects on PFM after the exit from GBS are mixed, as improvements in some areas are continuing after the exit, while other areas suffer from the absence of a performance assessment. After the exit, a High Level Action Matrix (HLAM) was developed to address donors' concerns and prepare the ground for a possible relaunch of GBS. Part of this HLAM was to target weaknesses in the PFM system by passing the PFM Act in 2015. Other improvements in PFM are related to the work-in-progress that dates back to GBS efforts. In some areas, such as budget controls and credibility, the performance deteriorated due to the absence of the performance assessment framework after the exit from GBS.

The continued positive developments in PFM are not only the repercussions of progress during BS; they are also the product of larger investments by the government. Before the exit, UGX (Ugandan shillings) 4.5 billion were invested in PFM reform, while after the exit from GBS the government funding increased to UGX 26.5 billion. The Secretary to the Treasury announced that the third Financial Management and Accountability Programme (FINMAP III) would continue even without donor support. Uganda has been a strong performer in PFM matters over much of the last decade, and before the exit BS has provided significant support in this area.

Domestic accountability

The exit from GBS led to a reduction in domestic accountability, due to the absence of external control and performance assessment. Once GBS was suspended, the donor community introduced HLAM, which defined conditionalities the GoU would need to fulfil in order to lift the suspension of GBS. Although the GoU managed to fulfil the conditions of the HLAM to a large extent, donors did not relaunch GBS disbursements. The government lost interest and saw little incentive to further adhere to principles of accountability, but also the donors neglected the focus on the monitoring of results. In response to the misappropriation of funds that led to the exit from GBS, the GoU started to publish more budget statements and introduced a more inclusive debate on budget proposals. However, enhanced transparency did not translate directly into enhanced accountability, because traction to hold the government to account was small. While a selection of civil society organizations (CSOs) was invited and actively involved in the policy dialogue and therein discussed budget issues during the BS period, the inclusion of CSOs has diminished since the exit. The involvement of CSOs is now formally limited to a role in budget planning, while the BS policy dialogue covered a much wider set of topics.

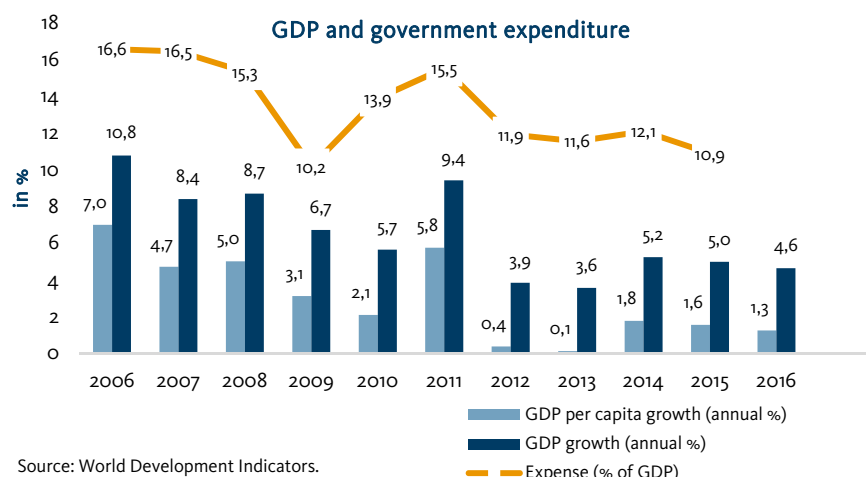
The transparency in budget planning has formally increased, with some involvement from the civil society, but without real effects on accountability. Budget transparency is slightly improving if measured by the amount of budget statements published. However, the return to project-type interventions undermines transparency, because resources for projects are only partly included in the budget.

Service delivery and non-income poverty

The decline in budget shares to social sectors had no noticeable negative effect on service delivery. The data shows that education and health indicators for service delivery remained largely constant. Only the pupil per classroom ratio in primary school worsened slightly from 57 students per classroom before the exit to 59 students in 2014. The student-teacher ratio for primary and secondary schools improved after the exit so that a clear tendency in either direction is not detectable.

The budget reductions in education and health after the exit had no noticeable negative effect on non-income poverty either. The data shows a continuous increase in life expectancy and decrease in infant and under-five mortality rates during BS and after the exit. A similar trend unfolds related to education indicators: the mean years of schooling increased constantly in the last 15 years, while the literacy and primary completion rates remained constant at unsatisfactory levels. So far, the implications of the exit from GBS did not have repercussions in health and education indicators.

Macroeconomic performance



Uganda quickly reached macroeconomic stability after the end of GBS due to fiscal adjustments. The growth rate recorded in FY 2012/13 was the lowest in over 20 years. As shown in the figure on the left, GDP per capita grew at a lower rate after the exit from GBS than during the BS period. The impact of the exit can be seen in the GDP growth figures in comparison to the sub-Saharan average. The year after the exit, Uganda's GDP was 1.3 percentage points below the sub-Saharan average while it had been 5 percentage points above this regional

average in 2011, and reached a level of 2.1 percentage points above the average in 2015.

The decline in government expenditure shows that fiscal adjustments were undertaken in response to the exit from GBS. The IMF estimated that the exit from GBS would reduce the fiscal space and require adjustments to the budget in the amount of 1.5% of GDP. The data shows that such an adjustment took place at least partly (reduction of around 0.75% of GDP) according to the IMF. Government expenditure declined from 15% of GDP in 2011 to 11% of GDP in 2015.

The GoU reacted to the financial shock of the exit from GBS by increasing the level of debt, especially domestic debt. Since the exit from GBS in Uganda in 2012, the level of public debt increased from 24% to 30% in 2014, standing at 40% in 2017. This increase in the share and level of domestic debt creates the risk of crowding-out private borrowing by pushing up the interest rates and thereby lowering growth rates.

Based on

Orth, M., Birsan, M. and Gotz, G. (2018), *The Future of Integrated Policy-Based Development Cooperation. Lessons from the Exit from General Budget Support in Malawi, Rwanda, Uganda and Zambia*, German Institute for Development Evaluation (DEval), Bonn.

Further sources

OECD (2018), *Creditor Reporting System (CRS)*, <https://stats.oecd.org/index.aspx?DataSetCode=CRS1>, accessed 19.3.2018.

Orth, M. et al. (2017), *What We Know about the Effectiveness of Budget Support. Evaluation Synthesis*, German Institute for Development Evaluation (DEval), Bonn.

World Bank (2017), *World Development Indicators 2017*, Washington, D.C.: World Bank.