USAID's Approach to Poverty Reduction
The Case of Uganda

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Summary

Starting in the 1980s, many African countries attempted the kinds of economic policy reforms that had accelerated growth and reduced poverty in many East Asian developing countries. Similar successes did not reward their efforts: in sub-Saharan Africa, per capita income declined 15 percent and poverty rates increased between 1980 and 2000. Uganda was one of the few exceptions to this pattern.

After years of civil conflict and failed economic policies, Uganda was ready to try something different. Starting in 1986, it introduced economic policy reforms that generated rapid economic growth and reduced poverty rates, though admittedly from a low base. As economic growth took hold, the government decided to make poverty reduction its overarching objective. All economic policies were designed with an eye on poverty reduction. The effort successfully accelerated economic growth and reduced poverty rates.

Uganda's experience demonstrates that improved policies and regulations can have a major impact on poverty. Eliminating inefficient government crop marketing boards resulted in higher crop prices for small farmers. A massive road building program opened up new opportunities and lowered costs for poor farmers. Universal primary education was introduced to improve the skills—and therefore the economic prospects—of poor children.

The government approached its antipoverty objective systematically. Starting in the early 1990s, it collected field data on poverty issues and worked closely with domestic groups and donors to build a consensus on who was poor, why they were poor, and what measures would improve their welfare. All players agreed that government policies and programs would have poverty reduction as their main objective. The

KEY IDEAS

Starting in 1986, the Ugandan government introduced broad economic reforms. It eliminated a straightjacket of government economic regulation and control as it liberalized both the domestic economy and international trade. In the mid-1990s, the government adopted poverty eradication as its overarching objective. From 1993 to 2000, GDP increased at a remarkable average annual rate of 6.7 percent, and the proportion of the population living in absolute poverty declined dramatically, from 56 to 35 percent.

Uganda demonstrated that sound economic policies can accelerate economic growth and reduce poverty. It also showed that implementing pro-poor budget and social policies can help poverty rates decline at an even faster rate. USAID supported Uganda's poverty reduction efforts, but at times congressional earmarks created difficulties. They reduced USAID's flexibility and made it difficult to support programs to strengthen the economic and policy environments that are crucial to helping the poor.

1997 Ugandan Poverty Eradication Action Plan (PEAP) included four pillars: 1) rapid and sustainable economic growth, 2) improved ability of the poor to increase their income, 3) good governance and security, and 4) increased quality of life for the poor. The PEAP guides government strategic plans, sectoral plans, and all budget decisions. Strategy and planning for most sectors occurs in joint working groups where the government, donors, and NGOs are represented.

Though Uganda's poverty-centered approach has been highly successful at reducing poverty, implementation issues remain.

- *Policy reform versus direct assistance.* Most NGOs and some donors are skeptical of policy approaches, preferring to give assistance directly to the poor. In Uganda, USAID's emphasis on direct assistance to poor people is not an optimal use of resources. Greater long-term impact could be achieved through more emphasis on indirect policy and institutional reforms.

- *Program constraints.* Directives from USAID Washington and congressional appropriations and earmarks designed to solve specific development problems sometimes failed to mesh with USAID's Uganda Strategic Plan. In order to meet Washington objectives, the USAID Uganda program often invested in second-best options, resulting in reduced poverty impact.

- *Economic distortions.* Antipoverty programs need local resources (such as rural health and education workers, roads, and buildings) rather than large quantities of foreign exchange. Large foreign exchange inflows provided by donors have generated price and trade distortions that could harm Ugandan exports and investment.

Uganda has been extremely successful at spurring economic growth and reducing poverty. However, remaining problems include low productivity (pervasive throughout the economy), sagging GDP and export growth, low domestic savings (6 percent of GDP), and heavy dependence on donor assistance (equaling almost 16 percent of GDP). Democracy and governance problems include political repression, weak commitment to ending armed conflict in the north and west, military adventures in nearby countries, and corruption that has been ranked among the worst in the world. ■

Uganda's experience demonstrates that improved policies and regulations can have a major impact on poverty.

Background

Starting in the 1970s, African countries watched as East Asian developing countries dramatically increased their exports, helping increase employment and reducing poverty rates. Improved education and health also helped to reduce poverty. These successes encouraged many African governments to embrace budget discipline, low inflation rates, liberalization of their domestic economies, and trade openness, but they did not reap comparable rewards. Indeed, from 1980 to 2000, per capita income declined and poverty rates increased in sub-Saharan Africa.

Towards the end of that period, The World Bank, UN agencies, most bilateral donors, and many developing countries adopted poverty reduction as their overarching development objective. While concerned about poverty, USAID's worldwide approach has been "sustainable development." Poverty reduction is not an overarching goal but is, rather, an important outcome of sustainable development. Some question whether USAID can have

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an effective antipoverty program if poverty reduction is not its prime objective. However, others doubt that donors can have effective antipoverty programs without sustainable development.

What Is a Poverty Reduction Approach?

All agree that it is hard to reduce poverty if economic growth is stagnant. Thus, the first step is to create broad-based economic growth that expands economic opportunities for the poor. Growth tilted in favor of the poor reduces poverty even faster. The vast majority of the poor live in rural areas, and their own labor is their main resource. Poverty reduction programs, therefore, have their greatest impact when they are directed toward labor-intensive growth and when they support farm and nonfarm activities upon which the poor depend.

Lynn Salinger and Dirck Stryker found that a poverty reduction approach must spring from an analysis of what keeps the poor poor, a determination of where they live, and assessments of their economic and social conditions.[1] Solutions to poverty include economic policy reform as well as investments in basic education, health, and clean drinking water—all of which help the poor increase their productivity. Poverty reduction also requires investment in infrastructure such as roads and market centers. Improved personal security and reduced civil conflict not only improve public welfare but increase economic growth. And finally, a poverty reduction approach must involve the poor in program decisions. Uganda closely followed this poverty reduction model.

About This Study

Using the poverty assessment methodology developed by Sleeper and Salinger,[2] the evaluation team analyzed how USAID adapted its program to help Uganda meet its poverty reduction objectives. The study addressed the following questions:

- What is the Ugandan government's approach to poverty reduction, and how was it designed? How is it being implemented, and how successful is it?
- To what extent is USAID's sustainable development approach consistent with Uganda's poverty reduction approach? To what extent has USAID followed or modified its approach?
- What is USAID doing differently in a country like Uganda, which is following a comprehensive poverty reduction strategy?
- Have congressional earmarks helped or hindered USAID's approach to reducing poverty in Uganda? In what ways? What would be different if there were no earmarks?
- Would USAID's allocations by development sector be different if poverty reduction were USAID's overarching objective?
- Would the selection of activities and projects within each sector be different if poverty reduction were the overarching objective?

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The assessment team included a team leader, an economist, a health and education specialist, and a specialist in democracy/governance, environment, conflict, and gender. Data and documents were collected from USAID, the Government of Uganda, and the World Bank. Interviews were held with program and technical staff of USAID and other donors, and with representatives of the Government of Uganda, the private sector, NGOs, and civil society organizations. The analysis for this report was completed in February 2002. ■

[1] Lynn Salinger and Dirck Stryker, *Comparing and Evaluating Poverty Reduction Approaches: USAID and the Evolving Poverty Reduction Paradigm* (Cambridge, MA: AIRD/CDIE, 2001). PN-ACN-169.

[2] Jonathan Sleeper and Lynn Salinger, *Fieldwork Methodology for a CDIE Assessment of USAID and Poverty Reduction Approaches* (USAID/PPC/CDIE, 2001). PN-ACR-444. CDIE, the Center for Development Information and Evaluation, is now the Office of Development Evaluation and Information (DEI).

The Economic Situation

Economic Disorder and Decline

At independence in 1962, Uganda was a low-income country. Poverty rates were high, but people were well fed and per capita GDP was increasing by 2 to 3 percent a year. Uganda had one of Africa's leading universities, and education and health were both improving. Good growth rates, low inflation, and balanced external accounts continued until the late 1960s. The economic mismanagement that began in the late 1960s was compounded by the despotic rule of Idi Amin between 1971 and 1979. The country suffered through political instability and repression, severe economic and governmental mismanagement, and, finally, civil war. The economy was shattered. By 1986, at the end of the civil conflict, GDP had fallen more than 20 percent from its 1970 level. Inflation was rampant, the currency was grossly overvalued, and exports had drastically shrunk.

In 1986, Yoweri Museveni seized power to become president of Uganda. His administration's economic program, based on government control and management, failed. The government then shifted from its heavy-handed command approach to a more market-oriented system. Reforms were encouraging, but by 1992 the economy was once again in trouble. Coffee export earnings dropped sharply, the budget deficit ballooned out of control (to 14.4 percent of GDP), and inflation skyrocketed (peaking at an annual rate of 230 percent). More serious economic reforms were clearly needed.

The 1992 Reforms

In 1992, the government changed its economic policy team and introduced a strong macroeconomic stabilization program. Government spending was sharply reined in, and the overvalued multiple exchange rate was replaced with a free market rate. Import and foreign exchange controls were eliminated. Aided by high international coffee prices, these efforts dramatically reduced inflation rates and stabilized the economy.

Government policy reforms continued to liberalize the economy, encouraging increased agricultural production and giving a boost to exporters. Government marketing arrangements for coffee, tea, and cotton were gradually dismantled. Foreign exchange allocations became more market-oriented. Trade liberalization turned the terms of trade in favor of the rural poor. Smallholder coffee growers received a substantial income increase from the removal of government controls on the coffee trade. Within a few years, stabilization and economic policy reforms had given a strong boost to the economy.

Even strong economic growth did not quiet arguments from the NGO community. Though macroeconomic reform may have worked, NGOs maintained that poverty was not being reduced, and they produced numerous anecdotes on the suffering of the poor. Indeed, the NGOs believed that poverty was increasing as a result of economic liberalization. To counter this argument, the Government of Uganda went beyond macroeconomic data to collect and analyze poverty

The Government of Uganda promotes universal primary education and has made strides in closing the enrollment gender gap. USAID helped design the country's educational reforms.

data obtained from new sample surveys and village meetings with the poor. The government also worked to engage all stakeholders in the policy process. The approach paid off: at a November 1995 conference of government officials, donors, and NGOs, discussions based on survey data helped educate both the government and NGOs, reducing acrimony and building a consensus on what was needed to reduce poverty.

Many developing countries have great difficulty meeting PRSP standards. Uganda's Poverty Eradication Action Plan, which preceded the PRSP initiative, enabled it to be the first country to meet PRSP standards.

Uganda's Approach to Poverty Reduction

Before the 1995 conference, Uganda had a typical public investment plan with hundreds of discrete projects. But the approach was piecemeal, rather than comprehensive or even sectoral, and it lacked a poverty focus. Inadequate coordination among stakeholders resulted in duplication and inappropriate sequencing of projects. The end result was little ownership of the projects by the central government, local governments, NGOs, or the supposed beneficiaries.

After the 1995 conference, the government shifted away from a project-driven budget toward a multiyear, sectoral approach that involved participation of all stakeholders except the private sector. Uganda's broadest development goals were laid out in its *Vision 2025 Statement,* whose goal was eradicating mass poverty. Key elements of the government's approach included the following:

- *Poverty Eradication Action Plan (PEAP).* The government produced the PEAP in 1997, after much discussion and consultation. It called for a dramatic reduction in the incidence of poverty, from 56 percent in 1993 to 10 percent by 2017. Poverty reduction would be achieved through rapid and sustainable economic growth, improved ability of the poor to increase their incomes, improved governance and security, and increased quality of life for the poor.

- *Macroeconomic measures.* Continued macroeconomic stability, low and stable inflation, and a sustainable balance of payments were indispensable to the realization of PEAP goals.

- *Poverty Action Fund.* The government created this fund in 1998 to concentrate resources on poverty. Fund expenditures were targeted to education, health, water and sanitation, farm-to-market roads, agricultural extension, and microfinance. The fund received debt relief resources as well as a portion of the aid resources from some donors.

- *Sectoral action plans.* These plans were based on the PEAP, and identified objectives, constraints, priority actions, and monitoring indicators. Sectoral plans were prepared for education, agriculture, health, and the private sector. Plans for other sectors are being developed.

- *Medium-Term Expenditure Framework.* The PEAP has influenced the government's budget through the Medium-Term Expenditure Framework. This framework ensured that all government programs were driven by strategic priorities and disciplined by "hard budget" constraints.

- *Results measurements.* These have been used by the Ugandan government to assess changes in living standards and performance of government programs. They have included the results of the USAID-supported Demographic and Health Survey, Uganda's own participatory poverty assessment, and a national household sample survey.

The World Bank and IMF have defined what constitutes a good poverty strategy. They require developing countries to have their own Poverty Reduction Strategy Papers (PRSPs) to obtain debt relief. Many developing countries have great difficulty meeting PRSP standards. Uganda's PEAP, which preceded the PRSP initiative, enabled it to be the first country to meet PRSP standards. It is to Uganda's credit that its own poverty reduction plan could be used in lieu of the PRSP.

Uganda's Performance

The government began in 1986 by concentrating on economic stabilization, then moved into an economic growth strategy. In the mid-1990s, it added a strong emphasis on poverty reduction. Uganda achieved strong economic growth and declining poverty rates.

From 1992/93 to 1999/00, GDP increased at an average annual rate of 6.7 percent. Average per capita income rose by 65 percent, from $200 in 1990 to $330 in 2000. The proportion of Ugandans living in absolute poverty declined from 56 percent to 35 percent. Over the last 10 years, HIV/AIDS infection rates declined by as much as 50 percent at key urban sentinel surveillance sites. Between 1992 and 1999, net primary school enrollment rates increased from 51 percent to 84 percent for the poorest quintile. The results also reflected strengthened partnerships with donors, NGOs, the private sector, and civil society. The government included these partners in sectoral working groups to develop programs that all stakeholders would support.

This rosy picture has a gloomier side. High 6–7 percent GDP growth rates of the 1990s have declined, due in part to a decline in the terms of trade. In 2000/01, real GDP growth was estimated at about 5.4 percent and is projected at 5.6 percent for 2001/02. Prices for coffee, Uganda's major export commodity, were down sharply in 2001 and 2002. Nontraditional exports did not grow fast enough to close the gap. By 2002, large aid flows were causing the Ugandan currency to appreciate, putting the country's exporters at a further disadvantage. Investment, at 13 percent of GDP, is too low to sustain economic growth rates of 7 percent. Uganda is heavily dependent on donor assistance, which equals nearly the government's entire development budget, and is almost 16 percent of GDP. Uganda clearly needs to mobilize more domestic resources.

There are other problems. Long-term armed conflict in border areas undermines economic growth and causes poverty. Low productivity is pervasive throughout the economy. Agricultural technology lags due to years of civil war: Uganda has one of the lowest fertilizer use rates in all of Africa. Production gains in agriculture have been made primarily through expansion of cultivated areas rather than through better management of land already under production.

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Over half of adult women are illiterate. School enrollment has increased dramatically, but low quality is a growing concern. Low immunization rates (just 39 percent of children are completely immunized), poor nutrition (one-third of children under age 5 are stunted), high-risk births, and poor management of preventable illness are continuing problems. Corruption harms economic progress. In 2001, Uganda had the unpleasant distinction of being ranked by Transparency International as the third most corrupt country in the world (after Bangladesh and Nigeria). There are questions about the accuracy of Uganda's rating, but the government, donors, and private sector acknowledge that corruption is a growing problem.

In summary, there has been rapid economic development and greatly improved welfare. Uganda has created a local government structure to deliver services, provided access to primary education for most children, and reduced the occurrence of HIV/AIDS. Some of the negatives include the dominant power of the executive branch, the official ban on political parties, a weak commitment to ending conflict, the persistence of corruption, and the president's unwillingness to relinquish power. ■

USAID's Strategic Approach, 1997–2007

In USAID's 1997–2001 Country Strategic Plan, poverty reduction was neither an overarching goal nor an explicitly stated objective. Individual activities were defined under five Strategic Objectives and one Special Objective, each with a separate management team.

USAID's Strategic Plan fell out of step with the Ugandan government's approach when the latter adopted its PEAP in 1997. While USAID's program provided benefits to poor people, poverty was neither an overarching objective nor an organizing force. In addition, the six Objectives were independent development efforts—often referred to within USAID as "stovepipes." They were designed to solve specific problems, and were not linked or integrated. The six separate Objectives required six management and implementation teams, a level of effort hard to maintain in the face of declining budgets and staffing levels.

USAID responded to the Ugandan government's approach with a new Strategic Plan for 2002–2007 that centers on poverty reduction. The new program goal is to "assist Uganda to reduce mass poverty." Each Strategic Objective is designed to have an impact on poverty. The new Strategic Plan also brings an integrated approach to poverty reduction activities. For instance, it combines health and education into one program area under a single Strategic Objective. This recognizes the need to educate people to build health awareness, as well as the role of the schools in that effort. After all, only so much can be done at health clinics once people have contracted HIV/AIDS or other diseases. Environmental programs are combined with economic growth programs to encourage sustainable land use and to protect the agricultural land base, vulnerable species, and habitat. Because armed conflict affects all activities, conflict mitigation is integrated into all program areas. Democracy and governance programs are linked to economic development and to education and health management. The new Strategic Plan has three Strategic Objectives rather than six (as in the 1997 plan). This has reduced the management burden and should promote development synergy. ■

Poverty Reduction: Issues and Findings

This evaluation confirmed that having sound economic policies and poverty reduction as a central organizing principle can have a significant impact on poverty.

Making Poverty Reduction an Overarching Objective

The Ugandan government's vision, policies, and budgets are all clearly designed to support poverty reduction. Working with local NGOs, the private sector, and donors, the government developed its poverty reduction plan. The 1997 PEAP established the goal of eliminating mass poverty by 2017 and served as the framework for all policy reforms and public expenditures. The Poverty Action Fund, Medium-Term Competitiveness Strategy and sectoral programs (agriculture, health, education, and environment) provide the strategic basis for the three-year budget framework and district and local government budgets.

USAID's new integrated Strategic Plan explicitly supports Uganda's focus on poverty alleviation. All USAID strategic objectives are designed to have an impact on poverty. Data review and interviews with a broad cross-section of government, the private sector, NGOs, civil society organizations, and donors confirm that Uganda is firmly committed to poverty reduction and that the USAID program has a sound poverty reduction strategy.

Donors Have an Important Policy Role

Because the Ugandan government has a poverty reduction program and is committed to its implementation, there is a common basis for donor coordination. This is not the case in other countries, where donors waste time and effort implementing standalone activities to bypass weak government leadership. In Uganda, donors sit with the government on joint working groups for most sectors;

there are also donor coordination groups. Most donors design their sectoral assistance around common sectoral approaches. Several donors provide budgetary support in lieu of project or sectoral assistance. Compared to other developing countries, the Ugandan government plays a much greater role in setting priorities and managing the development process.

The evaluation team found that donors clearly understood and accepted the government's poverty program. Each donor also had a good idea of what other donors were doing, who was chairing which coordinating group, what types of assistance were being provided, and what seemed to be working well. Donors also had strong opinions on the strengths and weaknesses of other donor programs.

A further advantage to being part of a donor-government poverty reduction partnership is that it encourages donors to speak out on policy reforms that go beyond a project or sector. For instance, at a September 2001 donor and government workshop, they joined in a debate over financial and personnel management reform, procurement reform, pay reform, anticorruption measures, and the need to improve overall fiduciary accountability. Donors have also used the partnership framework to press for democracy and governance reforms and political liberalization. Donors even speak out on corruption and on political or military actions that could harm development. For instance, Uganda's participation in civil war in the Democratic Republic of Congo in May 2000 brought strong rebukes from donors; some halted funding. Donors were prepared to take action again when similar fighting appeared imminent in January 2002.

Direct and Indirect Approaches to Poverty Reduction

Examples of aid provided directly to the poor include immunizing children, providing microenterprise loans, or feeding the hungry. By contrast, indirect approaches benefit the poor by improving the policies and institutions that have an impact on poverty. Indirect approaches include broad enabling actions that promote economic growth, such as macroeconomic reforms, sectoral policy reforms, improved governance, and trade policy changes. Experience in many other countries has shown that when direct support ends, benefits are often not sustained. Indirect support that generates policy and institutional reforms stands a much better chance of producing sustainable benefits.

In Uganda, indirect measures included eliminating the government crop marketing controls that had depressed the income of poor farmers; supporting universal primary education to give poor children a chance to gain skills that will improve their productivity; and decentralizing government programs to make them more responsive to the needs of the poor. Such indirect measures clearly had a major impact on poverty in Uganda. From 1992/93 to 1999/00, the country's poverty rates declined by about 40 percent, due primarily to economic policy reforms that generated rapid economic growth. Growth was broad-based, rapidly expanding economic opportunities for the poor.

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But economic growth cannot do the whole job. It is hard to keep raising productivity if people are sick and illiterate. There is a need for direct investments in human capital (such as education and health) so that the poor can take advantage of an improved enabling environment.

The question remains: How much of the effort should be through direct measures and how much through indirect measures? Some donors and most NGOs are skeptical of the link between economic growth and poverty reduction. They favor an approach that delivers services and benefits directly to the poor. This is in line with the thinking of many UN agencies. As the UNDP's 2000 *Poverty*

Report notes, "much of the success of national poverty programs rides on 'targeting' benefits to the poor…. The human poverty approach…shifts the emphasis…to specific interventions to address specific deprivations…"[2] The demand for direct action stems from strong disillusionment with trickle-down as a mechanism for channeling the benefits of growth to the poor.

The USAID Uganda program includes large direct assistance programs, including P.L. 480 food, health, HIV/AIDS, and microenterprise credits that provide immediate benefits to the poor. The USAID program also provides indirect assistance, including training and institutional capacity development. The mission also aims to raise Uganda's overall capacity to provide services to the poor through sectoral policies in health, education, and other areas.

The rural sector provides a good example of the difference between USAID's indirect approach and some donors' direct approaches. Many donors want to deliver services and benefits directly to low-productivity subsistence farmers, who constitute about 80 percent of the Ugandan population. However, even massive assistance would be unlikely to reach more than a small fraction of the poor—all the more so because many of Uganda's poor farmers live in relatively inaccessible areas. At best, several hundred thousand farmers could be helped, but the national impact would be minimal. It is hard to increase productivity with subsistence crops.

By contrast, USAID's approach seeks to transform agriculture by the development of policies, technology, markets, and incentives that will allow those who can adopt modern technology and high-value crops to move out of low-productivity subsistence agriculture. USAID stresses the importance of private sector, off-farm employment generation, the role of the private sector in agricultural development, and the need to improve the competitiveness of agricultural production, marketing, and exports.

The evaluation notes that Uganda is a big country with too many poor people to reach all of them with direct approaches. Even the UNDP, a leader of the direct assistance approach, seems to agree: the preface to the 2000 Poverty Report states "confining poverty programs to a set of small-scale—often disjointed—projects 'targeted' at the poor is not an effective use of resources." The report concluded that the UNDP needs to be "…more focused on helping to improve national policy-making and institutions and less dispersed among a myriad of small-scale projects."[3] The evaluation team suggests that the USAID Uganda program, with its large project component, is leaning too far toward a direct, project approach. For example, previously USAID helped Uganda design its education reforms. Now USAID concentrates on education projects. It is the same in other sectors. USAID could have greater long-term impact if it placed more emphasis on indirect policy and institutional reforms.

Project Assistance, Sectoral Approaches, and Budgetary Support

The choice of assistance type should depend upon the needs of the developing country and the donor's comparative advantage. However, USAID's choices are constrained by its budget and programming system.

Project assistance is a standard donor approach. A development problem is identified, and the donor provides technical assistance, training, and commodities to solve the problem. But if a development problem is larger than a project, addressing the problem may require a sectoral approach. In this approach, a donor provides money, technical assistance, or projects to help implement sector-wide policy and institutional reforms. Budgetary support is a third option. It makes sense for donors to provide funds directly to the government if they believe the recipient country has appropriate policies and budgetary priorities, as well as satisfactory management and financial systems. The donor and host government agree on what needs to be done, and the host government does it.

[2] United Nations Development Programme, *Poverty Report 2000—Overcoming Human Poverty* (New York: UNDP, 2001), 82, 83. <http://www.undp.org/povertyreport>

[3] Ibid., 5, 8.

Some donors view the passage from project to sectoral assistance to budgetary support as a progression showing that the recipient has achieved greater capability to deal with development problems. Though the country has the capacity to implement solutions itself, it may still need donor policy advice, some technical assistance, and, above all, donor financial resources.

USAID, the World Bank, and other donors give Uganda high marks for its poverty policies and budget framework. Some donors and the World Bank have switched from projects to financing sectors or the budget. These donors will continue to work closely with the government on policy and budget issues, but they will not implement development projects. This approach offers management and financial savings for the donor and even greater benefits for the Government of Uganda. A cash transfer means that the government can concentrate on managing one program—its own—rather than dealing with the often conflicting demands of many donors. Previously, the government had to deal with 50 to100 donor projects, each with its own donor policies, procurement, reporting, and financial requirements.

Donors providing budgetary support acknowledge Ugandan government management problems and weak financial controls. They maintain, however, that policy conditionality associated with budgetary support and their participation throughout the year in the budget planning process helps improve government performance. These donors maintain that they can make a long-term difference by working with the government as it develops its policies and budgets—not by implementing projects. As one said, "Budget support is more efficient than individual projects [for both the donor and Government of Uganda], but most important, it gets you a seat at the policy reform table. If you are not part of the budget support process, you don't have a chance to influence policy. It's not the money; it's donor coordination and good ideas that make a development difference."

However, USAID and most other donors prefer a mix of project and sectoral support. They have difficulty linking budgetary support to measurable results and beneficiary impact. Further, donors have strong concerns about the management problems and financial accountability in Uganda, noting that government financial controls are only fair to good and are very weak at the local level. Corruption is a problem, and government political decisions sometimes override development concerns. As one donor said, "The Ugandan government lacks implementation capacity, and there are problems with corruption and financial accountability. With project, and particularly sectoral support, we can keep a close eye on implementation and link disbursements to development and political performance."

Almost unique among donors, USAID rarely provides sectoral or budgetary support—only project assistance. One observer had harsh words about USAID's project approach: "USAID in Uganda works on symptoms of problems rather than the underlying problems. USAID has project managers. They do not deal with all of the development policy and political issues. USAID does not sit in on all of the major public sector reform meetings with the government. That is where the important decisions are made."

This criticism is somewhat off the mark. USAID is the second largest bilateral donor, and the Ugandan government wants the Agency at the policy table. USAID participates in sectoral working groups on agriculture, education, health, and the private sector. As one of the largest health donors, it is a key player in health policy formation. USAID also chaired the last joint education sector review. Further, the Agency is active on macroeconomic policy reform and in the formulation of policy measures that deal with corruption and efforts to improve governance. In addition to these policy projects, USAID has developed projects promoting a strong private sector and open trade policy. Because a good policy environment is necessary but not sufficient, many USAID activities help strengthen local institutions—including civil society—so that development can take place.

USAID's preference for projects is partly the consequence of its budget and management practices. In

USAID's strategic objective system, results must be measurable within a limited time period and linked to USAID's input. The linkage is difficult to demonstrate with nonproject support, and therefore many prefer projects. The reporting system determines the type of program approaches—even if they are not the most appropriate.

Budget Earmarks Limit USAID's Assistance Approaches

The way the U.S. Congress provides funding has unintended negative consequences. Appropriations are provided by sector (e.g., child survival, basic education), along with earmarks for specific subproblems (e.g., microenterprise, tuberculosis, victims of war). For the health sector, Congress specifically directed that assistance be used to provide services to those in need. USAID is thus not permitted to provide direct support to the government's health budget. USAID might obtain a greater health impact without that restriction.

With congressional emphasis heavily on health and education, other sectors suffer. Though Uganda needs a strong private sector and democratic reforms, USAID funding for such purposes is severely limited.

USAID budgetary realities also constrain the program. USAID Uganda based the development of its Strategic Plan on extremely thorough analysis that identified key problem areas as economic growth, agriculture, democracy and governance, and corruption. However, earmarked health sector activities currently consume over half of the mission's budget—a much greater proportion than the Strategic Plan recommended. While all acknowledge that HIV/AIDS is a serious problem in Uganda, high USAID funding levels may be creating institutional capacity problems in absorbing that much money. Based on need and U.S. comparative advantage, the evaluation team believes that non-health programs should be larger than they now are.

In theory, program goals should determine how a budget is designed. In practice, the available budget often drives the program. This problem applies to Uganda and, apparently, to many USAID country programs. Congressional budget allocations and USAID Washington's own directives trump field-based needs assessments. Development suffers as a result.

A health worker trains mothers at a clinic in Kampala. In Uganda, family planning is a lower priority than the struggle against HIV/AIDS.

Donor Funding Affects the Economy and Export Development

Uganda is far ahead of most other countries in formulating and implementing major economic policy reforms and a poverty reduction strategy. As a result, Uganda has become a favorite of the donors, who now fund nearly all of Uganda's development budget. One consequence is that foreign assistance increasingly drives the economy, even more so in the past few years because of the collapse of coffee export earnings. This situation generates several concerns about the impact of donor funding on Uganda's economy, including the important export sector.

Large foreign aid flows affect Uganda's economy and, in particular, exchange rates, inflation, and interest rates. Three factors influence the impact of such flows.

- *Foreign exchange from foreign aid is converted into domestic currency.* Because most donor assistance goes to budgetary and sectoral support, a large portion of foreign aid has been converted into local currency to pay for local development projects. Increased demand for local currency has caused it to appreciate, making Uganda's exports less competitive.

- *The local currency equivalent of foreign assistance is used to purchase nontradables (local goods) rather than tradables (imported goods or goods that could be exported).* In Uganda, there has been relatively little increase in imports linked to aid. Most aid has been used for budgetary or sectoral support, and government expenditures are heavily oriented toward health, education, and other nontradables. There is evidence that increased demand is forcing up the prices of nontradables relative to those of tradables.

- *The Bank of Uganda affects the appreciation of local currency through its foreign exchange operations.* Over the years, the Bank of Uganda used local currency to purchase dollars to avoid excessive appreciation. More local currency was thereby put in the market. To mop up excess local currency liquidity, the bank had to push interest rates up sharply, wreaking havoc with financial markets. As a result, the bank decided in 2001 to allow the currency to appreciate, boosting the prices of nontradables relative to tradables.

Some argue that the appreciation of the real exchange rate is likely to be offset by productivity increases in the tradables sector. However, the key to increasing productivity is building capacity—some of which will result from public investments in roads, education, health, and other areas. Such investments have a long gestation period (five or more years) before they have any significant effect on productivity.

In addition to programs designed to reduce poverty, the private sector needs to expand its ability to increase Uganda's exports. Implementation of the government's Medium-Term Competitiveness Strategy for the Private Sector has lagged. Some are concerned that Uganda's emphasis on poverty reduction may divert attention away from creating an enabling environment that will encourage the private sector to make the investments necessary to increase exports.

The real exchange rate should be depreciating—not appreciating—in order to move toward equilibrium. Uganda depends heavily on coffee export earnings, which are down substantially and are expected to remain low over the next few years. In view of the 35 percent decline in world coffee prices from 1999 to 2001, the real exchange rate should have depreciated by 25 percent. Instead, it has begun to appreciate. The consequences of exchange rate appreciation will be felt immediately on nontraditional exports, which generally have more cost-sensitive profit margins than coffee.

As USAID does not provide budgetary support, the Agency is not contributing as much as other donors to the problem of exchange rate appreciation. Indeed, as part of its decentralization program, USAID supports training and capacity building. These activities yield a more immediate economic payoff for rural investments. However, USAID needs to monitor the exchange rate situation closely because currency appreciation can harm private-sector, export-oriented activities that USAID supports. When exchange rate appreciation threatens exports, USAID needs to encourage the government, private sector, and other donors to address the issue.

Mitigating Conflict Addresses Poverty Issues

In Uganda, armed conflict is an important cause of poverty. Conflict currently occurs in isolated areas of the north and west, and includes cross-border disputes. The north has experienced a sharp rise in poverty, while poverty has decreased nationwide. Security concerns affect the delivery of government services, particularly in the north.

Conflict kills or disables individuals and affects communities on every level. People are displaced, often settling in camps where overcrowding increases disease and mortality rates. The educational system crumbles as schools are burned and teachers are killed, abducted, or displaced. Poverty is further increased as homes and communities are destroyed, along with families' savings (often in the form of livestock). Grain stocks are looted, and farming is adversely affected by loss of draught animals and increased insecurity. As a result, malnutrition and food insecurity become widespread.

The psychological effects of conflict are complex: many victims suffer from posttraumatic stress, depression, and acute anxiety. Community support structures are often lost, along with traditional customs and values. Social breakdown leads to behaviors once considered culturally unacceptable—such as extramarital sex, which increases the spread of sexually transmitted diseases and HIV/AIDS.

USAID recognizes the crosscutting nature of conflict. It is implementing conflict-mitigating activities as part of its existing programs in democracy and governance, health and education, and economic growth and agriculture.

Decentralization Empowers the Poor

Decentralization means devolution of power from the central government to local levels. Uganda's Local Government Act of 1997 transferred authority to 56 districts and over 900 subcounties. Decentralization affects every sector. It has a significant impact on USAID's objectives in democracy and governance and in human capacity building. In the democracy and governance area, decentralization may empower the poor by increasing community involvement in local government decisions and making local governments more accountable to the needs of the people.

Uganda's decentralization process created an extensive local government structure. However, a lack of trained personnel at the local level has created severe problems with procurement and financial controls. USAID's Strengthening Decentralization in Uganda project is helping build the capacity of local officials, civil society organizations, and private sector institutions that interact with local governments. Activities include training, mentoring, and technical assistance. At USAID, there is cross-sectoral coordination on decentralization because it affects programs in the economic growth, health, and education sectors.

Decentralization promotes the separation of powers at the national level. Although the executive branch dominates Uganda's political system, constitutionally Parliament represents the people and should provide oversight. USAID's Parliamentary Technical Assistance project assists Parliament in strengthening its oversight role and connects members of parliament with civil society organizations and their local councils.

Expanding the Role of Women Improves Development

Women's roles in Uganda have increased through affirmative action programs. Local governments must fill one-third of their seats with women, and each district must send at least one woman to Parliament. Uganda's vice president is a woman, and women hold ministerial positions.

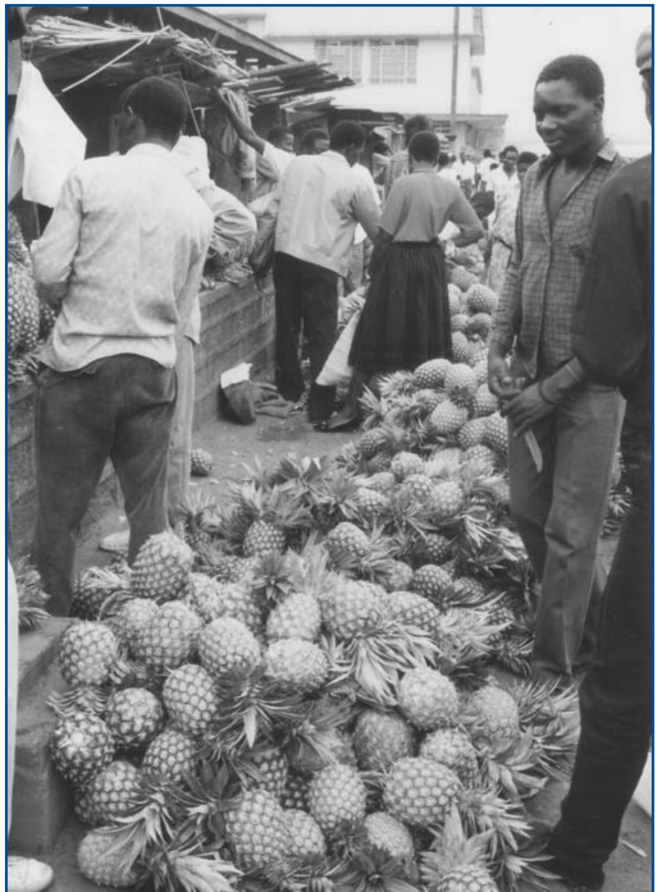
Progress is notable in education, where the enrollment gender gap has been closed as a result of policies promoting universal primary education. However, girls' attendance and performance are often compromised. Due to their roles in agriculture and in the home, girls are the first to be pulled out of school. The older a girl becomes, the harder it is for her to stay in school.

Property rights and health are important issues for women. Women can buy land, but they cannot co-own land with men. If a man dies, the land goes to his sons or brothers, not to his wife. Parliament has consistently blocked attempts to give women co-ownership land rights. Uganda's live birth rate of seven children per woman is one of the highest in the world. This large number compromises women's health, and maternal mortality remains high. The Ugandan government is not giving this health and population issue the attention it deserves.

U.S. Trade Policy Strengthens Development Policy

In addition to development aid, a donor country's trade and other policies can help or hurt a developing country. A balanced analysis must take into account their combined effects on development. Policy coherence refers to the overall consistency of a donor country's policy objectives and instruments. In Uganda's case, U.S. trade policy supports Uganda's development interests.

The United States' African Growth and Opportunity Act (AGOA) provides an opportunity for African firms to increase their exports to the U.S. Although there are source and origin restrictions, AGOA provides duty- and quota-free access to the U.S. market for sub-Saharan African apparel—an average 17.5 percent duty advantage relative to non-African suppliers. To qualify, African countries must promote open markets and political systems, implement policies to reduce poverty, make efforts to fight corruption, protect human and workers' rights, and eliminate child labor abuses. Though Uganda's strong reform effort has already qualified it for access to the U.S. market, an export market is not guaranteed. Uganda still needs to overcome a number of quality and management obstacles.



Uganda hopes to increase foreign exchange earnings by increasing nontraditional exports such as pineapples.

Monitoring Poverty Indicators Improves Performance

The Government of Uganda has been tracking poverty indicators for some time. In 2002, it completed a new poverty monitoring and evaluation strategy. Monitoring and evaluation will build accountability by revealing the degree to which objectives and agreed performance standards have been met. For beneficiaries, service providers, and policymakers, the process will also create a flow of information about what works and what does not. This will require measuring impacts and evaluating what caused them to occur.

An important aspect of poverty monitoring and evaluation is identifying potential users of the information and the uses to which the information will be put. These uses include the budgetary process, in which sectoral working groups and the Ministry of Finance prepare the Government of Uganda Budget Framework Papers. Another use is the poverty reduction evaluation tracked by the Poverty Status Report, the main document that outlines progress in reducing poverty.

The kinds of data collected have an important bearing on evaluation. For instance, administrative data are often the easiest to acquire but can be misleading. Administrative data are facility-based (for instance, a health center), and thus provide information only on those who use the facility, not on those who do not—who often include the poor. The Government of Uganda recognizes the need to complement routine administrative data with national service-delivery surveys and with participatory exercises that focus on beneficiary groups as a whole. Uganda's two key sample surveys are the National Household Survey and the Uganda Demographic and Health Survey. The former provides information on household expenditure, which is used as a proxy for household income. The latter yields data on key demographic and health indicators. Another source of qualitative information comes from the Uganda Participatory Poverty Assessment Project. None of these data sources is large enough to provide accurate statistics at the district level, a major problem in view of Uganda's emphasis on decentralization.

Thus far, data gathering and analysis in Uganda have contributed little to impact assessment. It is obviously much easier to gather data on inputs, outputs, processes, and outcomes than it is to determine cause and effect. But knowing who benefited, by how much, and why and how the benefit occurred is important to improving program management and development. Without impact data, the government and donors may bias interventions toward those that are direct—and therefore easier to measure— rather than those that are indirect, but perhaps more important. This is especially true of some USAID activities. For example, in the area of economic growth, agriculture, and the environment, many interventions have an indirect influence on employment and output, and an even more indirect impact on poverty. They require analysis to assess their effectiveness in reducing poverty. ■

Lessons Learned

1 Economic policy reform that leads to strong economic growth is essential to increasing income and reducing poverty.

Over a six-year period, Uganda steadily removed government controls as it liberalized its domestic economy and trade policies. Even poor rural areas did very well under liberalization. Investment, production, and trade increased, due to the decontrol of trade and exports, the removal of government corporations from crop and input marketing, and the lifting of distribution and price regulations. Uganda's per capita income rose dramatically: from $200 in 1990 to $330 in 2000. From 1993 to 2000, the number of Ugandans living in absolute poverty declined dramatically, from 56 percent of the population to 35 percent.

2 Impressive results are possible when a government is committed to poverty reduction.

Many developing countries talk about poverty, but few are as serious about it as Uganda. For political and developmental reasons, Uganda concentrated its efforts on poverty reduction. All government strategies, policies, and budget decisions were designed to have a poverty impact. The government worked jointly with NGOs, USAID, and other donors to develop those strategies and policies. Uganda demonstrates that a true government commitment to implement a poverty-centered development program will result in more efficient use of donor resources and a reduction in poverty. USAID's adoption of one overarching goal in Uganda—reducing mass poverty—is an excellent way to support Uganda's efforts.

3 Government, NGO, and donor coordination improves the poverty reduction process and makes it easier for donors to encourage a broad range of policy reforms.

Uganda's commitment to poverty reduction provides an excellent basis for donor coordination. Donors sit with the government on joint working groups for each sector, and most donors design their assistance around common sectoral approaches. These partnerships not only allow donors to help shape sectoral policy reforms, but to go beyond a project or sector. The joint working groups have seen spirited policy debates on financial and personnel management reform, procurement reform, pay reform, anticorruption measures, financial accountability, and democracy and governance. Donors can—and do—speak out concerning corruption and on political or military actions that could harm development. This is very important in a country where civil society is not well developed.

4 A better balance needs to be found between direct and indirect assistance approaches.

Aid is provided directly to the poor by immunizing children, feeding people, or making microenterprise loans. Indirect aid changes institutions and policies that have an impact on poverty. Some donors and most NGOs favor the former approach because it targets those most in need. While it may be satisfying to help those who are suffering by providing immediate help, direct approaches can never reach more than a small fraction of the poor. It may be more cost effective and sustainable for the government and civil society, rather than outside donors and NGOs, to deliver direct assistance. Moreover, direct approaches may deflect attention and resources away from the need for indirect measures that promote an enabling environment for private-sector investment, exports, and economic growth. In Uganda, USAID should consider putting more resources into indirect assistance approaches that expand opportunities for the poor to move out of poverty.

5 Congressional earmarks and directives strongly influence USAID country strategic choices.

In Uganda, one result of congressional earmarks is to skew USAID's assistance toward direct assistance rather than to indirect approaches that can have a much broader impact on poverty. Earmarks also direct funds to activities that do not have a major impact on poverty. These problems are not limited to Uganda; this is a worldwide issue that needs to be addressed in Washington, DC. USAID could do a better job on poverty reduction if there were fewer congressional restrictions and directives.

6 High levels of donor aid can help as well as hinder development progress.

Large donor funding has allowed Uganda to implement structural economic reforms and a major decentralized poverty strategy. The strategy has had an important impact on poverty, but the effort is in danger of being undercut by inadequate implementation capacity, including weak institutions, insufficient manpower, and lack of accountability. Large foreign exchange aid inflows to cover mainly local costs have forced interest rates up and caused the currency to appreciate. This has the potential to frustrate USAID's emphasis on strengthening private-sector development and export competitiveness. ■

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