THE PROCESS OF PLANNING AND INSTITUTIONAL FRAMEWORK FOR POVERTY REDUCTION STRATEGY: THE CASE OF UGANDA.

By
Margaret Kakande
Poverty Analyst
Ministry of Finance, Planning and Economic Development,
Government of Uganda.

1.0 Introduction:

Until 1996, Uganda government pursued policies that were aimed at and successfully revived the country’s economy that had been devastated over more than two decades of political turmoil. An indepth poverty analysis in 1996, indicated that poverty incidence as measured by consumption expenditure had declined from 56 percent in 1992 to 46 percent in 1996. Despite this significant decline, 46 percent was still an unacceptably high level of poverty.

In response to this unfortunate situation, Government in 1996, resolved to focus on a strategy for poverty eradication to 10 percent levels by 2017. To this effect, a Poverty Eradication Action Plan (PEAP) was formulated and launched in 1997. The PEAP, is the national planning framework, and has currently been revised for 2000. A summary of the revised PEAP, is Uganda’s Poverty Reduction Strategy Paper (PRSP).

2.0 The Process of formulating the PEAP.

- The PEAP evolved in the context of a participatory process that involved local communities, civil society, the donor community; and the government. In 1996, the government established a National Task Force on Poverty Eradication, which developed an action plan in consultation with donors, academia and civil society
organisations. This work culminated in the government’s announcement in June 1997 of its PEAP, and its subsequent implementation.

- In 1999, government conducted a Participatory Poverty Assessment to bring to the fore the voices of the poor themselves. The revision of the PEAP in 2000 drew heavily from the findings of this assessment.

- The revision of the PEAP (2000) was a highly consultative process involving stakeholders from all sectors including Parliamentarians, civil society organisations, the press and the local governments.

The Plan has four main goals:

1. Creating a framework for economic growth and transformation;
2. Ensuring good governance and security;
3. Enhancing actions which directly increase the ability of the poor to raise their incomes; and
4. Enhancing actions which directly improve the quality of life of the poor.

Under each goal, the Plan draws on the processes already existing in government. In particular, major information sources included:

(i) the sectoral work prepared under the Medium-Term Expenditure Framework and Budget Framework Paper
processes that entails evaluating outputs and services delivered in the previous financial year; analysis of implications for policy reform and issues of sector performance; and planned outputs, activities and resource allocation. The sectoral working groups, in addition to the traditional ones, included law and order, accountability and public administration.

(ii) The Action plan for governance that was prepared under the Ministry of Finance.

(iii) The statistical evidence especially from household surveys

(iv) In addition to the Participatory Poverty Assessment, numerous research studies, including some specially commissioned for the PEAP

The Commissioned studies included, for instance ones on:

(a) “Growth, Poverty and Income Distribution Conditional Projections for Uganda” to determine the most appropriate growth path.

(b) “Trends in the use of Public Services in Uganda, to ascertain the benefit incidence to different socio-economic groups.
3.0 The Implementation of the PEAP.

3.1 The Process

The priorities articulated in the PEAP are implemented through sectoral plans and the annual budget. The level of detail of these plans varies among sectors, but in all cases sectors are moving towards fully costed programmes with well-defined targets. The implementation of the PEAP is therefore not a separate exercise but operates through the actions of each sector. The detailed process entails the following:

(a) Sector-wide planning and investment programming

The Sector Action Plans of the 1997 PEAP have been followed by further development of sector wide programming for all sectors to specify for each sector, the mission of the sector, the objectives of the sector in relation to poverty eradication, the outputs and the outcomes which are expected to result from sectoral expenditures, and the activities which the inputs will fund in order to get the predetermined outputs and outcomes.

The Sector Plans in place include:

- Education Sector Investment Plan
- Health Sector Strategy
- 10-Year Road Sector Development Plan
- Plan for Modernisation of Agriculture.
• National Strategy Framework for the Control of HIV/AIDS.
• Government Strategy and Plan of Action to Fight Corruption and Build Ethics and Integrity in Public Office.

(b) *Medium Term Expenditure Framework (MTEF)*

In the preparation and prioritisation of sector plans, it is critical that ministries have a clear idea, not only of the macroeconomic resource envelope, but also of the likely level of resource available to their sector consistent with Government – and donor – commitments to all the other sectors. Since 1992, the Ministry of Finance, Planning and Economic Development has been developing an MTEF, which covers three fiscal years. This framework attempts to link resource allocations strategically with national priorities.

(c) *The Poverty Action Fund (PAF)*

Another important initiative, which has helped to promote participation over policy decisions impacting directly on the poorest, has been the PAF. In 1998, the Government of Uganda created the Poverty Action Fund to act as a conduit for the financial resources saved as a result of debt relief under the Highly Indebted Poor Countries (HIPC) Initiative. The Government of Uganda voluntarily earmarked all the savings from debt relief for spending in the PEAP priority areas, namely; primary education; rural feeder roads; agricultural extension; rural water and sanitation; and primary health care.
The PAF now channels both relief and additional donor support for poverty programmes into the priority poverty areas of government.

Although all PAF expenditures are still an integral part of the Government’s Budget, they are “ring-fenced” and therefore do not suffer cuts in times of revenue shortfalls.

3.2 Institutional Framework.

Because PEAP is a comprehensive plan, it reflects the current state of policy formulation in all sectors. For this reason, it cannot possibly answer all the policy challenges that it raises. Where issues are not resolved, it is intended that discussion about them will proceed over the next year, governed by the principles enunciated in PEAP. However, an institutional framework is necessary to ensure that these issues are actually followed up. The following institutions are responsible for following up the policy challenges raised in the PEAP.

(a) **PEAP Steering Committee**

This committee discusses policy challenges and agrees on actions.

(b) **Poverty Eradication Sector Working Group**
As part of the budgetary process, a sectoral working group has been established to review the work of all the other sectoral groups to ensure that poverty concerns are fully addressed.

(c) National Poverty Forum
Civil Society Organisations have established a National Policy Forum which will provide a forum for public discussion of poverty and regular review of the implementation of PEAP.

(d) Economic Development and Policy Research Department, Ministry of Finance.
Within the Ministry of Finance, Planning and Economic Development, the Economic Development and Policy Research Department within the Directorate of Economic Affairs is responsible for raising issues of economic policy and ensuring that the policies implemented across Government address poverty-eradication. Technical input comes from the Poverty Monitoring and Analysis Unit within this Department.

(e) Poverty Monitoring Network.
The Network ensures coordination and cooperation between institutions involved in monitoring the various aspects of poverty.
4.0 **Pre-conditions for a successful Poverty Reduction Strategy.**

A strong macro-economic performance and sound management of the economy is one of the pre-requisites of the enabling environment required for effective poverty reduction. Another part is a framework of institutions, which supports poor peoples’ efforts and the effective use of the country’s resources by the public and private sectors. At the heart of the matter, are issues of good governance.

4.1 **Macro-economic Stability.**

Uganda has achieved remarkable economic performance over the past decade because of the environment of macro-economic stability. Moreover, it is the growth within the economy that has contributed tremendously to the recent decline in poverty. Growth accounts for 87 percent of the fall in the headcount (percent of the population below the poverty line).

Macro-economic stability was achieved because of a number of economic policy reforms since 1986. These include:

- **Prudent Fiscal and Monetary Policies**

  These included reduction in the growth of money supply by reducing domestic credit to government, enhancement of expenditure control and monitoring as well as prioritising of public expenditures. On the revenue side, measures aimed at increasing domestic revenue were undertaken. There was an overhaul of the tax administration and a new tax authority (The Uganda Revenue Authority) was created.
• **Exchange Rate and Trade Policy Reforms**

A number of measures were undertaken, the most important ones being;

- the legalisation of private sector dealing in foreign exchange in 1990, through the introduction of foreign exchange bureaux to buy and sell foreign exchange. This made foreign exchange available at market rates.

- the establishment of the foreign exchange auction in 1992 to replace the previous systems of administrative foreign exchange allocation. The ultimate objective was to achieve a unification of the foreign exchange market and to make the Uganda Shilling a completely convertible currency.

The trade liberalisation strategy involved the removal of the negative effective protection faced by the agricultural sector. In 1922, all explicit export taxes were removed to encourage a positive export supply response.

• **Agriculture and Export Sector Policies**

To improve efficiency and restore price incentives for producers, government abolished price controls on producer prices as well as the monopoly of inefficient marketing boards including the Coffee Marketing Board (CMB).

• **Public Sector Management Reforms.**
Government focused its efforts on reforming the public service with the objective of attaining a smaller, well paid, motivated and results-oriented service.

- **State-owned Enterprises Reforms and Divestiture**
  Key measures included the following
  - Liquidation of those enterprises which were deemed to be unviable and whose continued support could not be justified on the grounds of specific social or economic objectives.
  - Divesting those enterprises which would operate more efficiently in the private sector.
  - And restructuring the operations of those enterprises remaining in the public sector to improve their efficiency and reduce their burden on the budget.

- **Financial Sector Reforms**
  Major reforms focused on restructuring the sector and deepening its resource base. Focus was put on improving the ability of the central bank to regulate the financial sector and to manage monetary policy.

Implementation of the reforms was done through a process of financial liberalization, which included the removal of interest rate controls, reduction of barriers for entry of new private banks, restricting the direct role of Government in the allocation of financial resources including crop financing and divestiture of the government ownership in commercial banks. In addition, measures were undertaken to strengthen bank supervision and foster financial discipline through new legislation and regulations,
and policies to improve the efficiency and profitability of financial institutions.

- **External Debt Policy**
  To ease the burden on the Balance of Payments (BOP) and the Government Budget and to enhance the confidence of both the domestic and foreign private investors in the country, the government has pursued a debt reduction strategy which included the pursuance of debt relief from the country’s creditors and, where debt cancellation was not possible, sought cooperation of creditors to reschedule outstanding repayments. Policy was also focused on seeking official external assistance in the forms of grants or high concessional long-term loans wherever possible and strictly limiting public borrowing from non-concessional sources as well as encouraging the inflow of private direct investment.

4.2 **Governance**

This is a very broad area that cannot be explored in this paper. However, two critical components will be alluded to.

(i) *Civil participation and local governance.*

In 1993, government embarked on the decentralisation path. The 45 local governments now have full political and administrative powers; in addition to partial financial authority. Today, there is a wide consensus of opinion that governmental decentralisation has great potential as an instrument of poverty reduction; as decision making
about the allocation of public resources gets closer to levels at which ordinary citizens can exercise influence. Civil society has grown steadily and increased in strength over the past few years. Government is increasingly involving NGOs in activities that were hitherto restricted to the official domain. NGOs participated in the formulation of the PEAP and the subsequent Sector Plans; worked with government in obtaining HIPC debt relief and are involved in the monitoring of the Poverty Action Fund. Government is increasingly funding NGOs to deliver services, particularly in the health sector, for human rights observance, and for micro-credit schemes.

(ii) Transparency and Accountability

Uganda has a comprehensive legal and regulatory framework to combat corruption. This comprises of a leadership code which mandates the declaration of assets by leaders; an anti-corruption watchdog, the Inspector General of Government, an Anti-Corruption Unit under the Office of the Vice President and most recently a Minister of Ethics and Integrity responsible for anti-corruption activities.
5.0 KEY LESSONS

There are a number of important lessons from Uganda’s experience in formulating the poverty reduction strategy.

1. This is a process that needs ample time to evolve nationally. The development partners especially the Bank and the IMF should recognise this fact and strongly desist from comparing other countries to Uganda – that embarked on this process way back in 1996.

2. The process calls for a lot of indepth analysis based on reliable statistics that has been generated over a reasonable period of time. The Uganda Bureau of Statistics has been conducting annual household surveys since 1992. It is this data that has been analysed to inform the process of formulating the PEAP.

In a number of countries capacity for poverty analysis is extremely weak. The Bank and IMF should be in position to provide Technical Support for this analysis when called upon to do so. In absence of adequate national statistics, a country may draw on experiences of another with similar socio-economic characteristics, to avoid stalmate of the process of formulating the strategy.
3. The process of formulating the PRSP should be a highly consultative one. To the extent possible, it should be enriched with the voices of the beneficiaries – the poor themselves. However, this may not be the rule or precondition for approving a PRSP basing on Uganda – because Uganda has a very unique political system that fosters local level consultations.

4. Poverty reduction strategy documents, should be live documents that are updated continuously as new information and opportunities emerge. Uganda intends to revise the PEAP every 3 years, following rigorous monitoring and research activities in the subsequent years.