ODA and private sector resources to achieve the SDGs: The Ugandan case

Juliet Akello, Uganda Debt Network[1]

Donor respect for aid and development effectiveness principles when funding private actors in Uganda

Aid effectiveness to ensure the realization of sustainable development outcomes is highly dependent on three main factors: i) donor and recipient motives; ii) alignment of the aid objective/s; and iii) policy effectiveness in a recipient country. Effectiveness principles should be interdependent and mutually supportive, and breaching any of them affects the success of development assistance. Several issues on adherence to aid effectiveness principles are still outstanding.

Ownership of development priorities: Aid conditionalities may be tightened if development cooperation best practices and principles are not implemented. The NDP I 2010/11 - 2015/16 was reportedly initiated by USAID with the objective of guiding the Ugandan government in its economic development.[2] In practice its performance was unsatisfactory, partly because of lack of ownership by many stakeholders and their readiness/agreement to implement the plan.[3]

While the participation of DPs in the formulation of the NDP I (2010/2011 – 2014/15) was rated inadequate,[4] and it improved with NDP II (2015/16 – 2020/21), challenges remain. DPs have continued to remit aid resources, but their limited participation is hardly coordinated or aligned to NDP priorities. This has affected its performance, which in turn, has undermined the effectiveness of development cooperation through ownership. DPs have been actively involved in providing technical assistance, which can be useful but this also creates possibilities for externally designed conditions to be attached to aid releases and how these funds should be spent. It is therefore important to establish the degree of ownership by government, and also to identify the level of intervention by donors on project policy design, implementation and coordination.

Harmonization: DPs have committed to ensuring that there is an increased harmonization between their policies and procedures with those of recipient governments in managing aid resources. However, they often create individual instruments, tools and guidelines for the execution of development assistance. This is a major constraint for governments as they are forced to manage several aid delivery mechanisms. Development assistance managers have to spend significant time producing multiple reports or attending several meetings to respond to DP governments' and agencies set priorities. Inconsistences in the remittance of aid resources can distort public financial management and the execution of funds, which significantly reduces aid effectiveness.[5]

Aid alignment with government systems: The need to increase the coherence between foreign aid spending and a recipient country's priorities is well recognized.[6] Use of government systems is strongly linked to issues in aid alignment. In the past DPs have raised concerns regarding the capacities of government procurement and accounting systems. This has resulted in many individual donor support units to administer their aid projects. It is ideal for donations to be remitted through general budget support. But because of reduced donor confidence in government systems, in 2013, for example, about 50% of total ODA to Uganda was channeled through off-budget modalities, and funding to Non-Governmental Organizations (NGOs), Community Based Organisations (CBOs) was directly implemented by DPs. Remittance of external resources outside government structures exposes it to donor determination of implementation modalities, and defeats the certainty of total inflows to the country.

__Predictability:__ Timely aid disbursements are essential for effective planning and budgeting by a recipient government.[7] Reports by the Ministry of Finance Planning and Economic Development (2011)[8] and Economic Policy Research Centre (2017) confirm that unpredictable aid flows undermine effectiveness since this constraints the forecasting of inflows, compounds the management of liquidity, activity planning and project implementation of development priorities. Aid resources are more volatile than government revenues.

__Mutual accountability and transparency:__ There has been very little progress on mutual accountability by all stake-holders in the utilization of aid resources. [9] While DPs constantly demand that governments account for expenditures of aid resources there is no clear mechanism and guidelines for holding donors accountable for their non-adherence to aid effectiveness principles. The result is that accountability between DPs and Government is out of balance. On the other hand, weak governance practices in government institutions, including the poor enforcement of regulations, have constrained DPs' adherence to transparency principles.[10] A close examination of adherence to aid effectiveness principles by both donors and recipient countries is crucial.

ODA support to private entities

The Accra Agenda for Action (2008) identified the private sector as an important channel for achieving the SDGs. ODA remains a crucial part of development co-operation, especially for low income countries.[11] In Uganda, the majority of private sector enterprises are not registered and few receive ODA. In addition, there is limited access to the Aid Management Platform (AMP)[12] to help track those that do receive ODA. At the same time Uganda implements a Public-Private Partnerships (PPPs) Policy,[13] which guides some private sector operations.[14]

The Private Sector Foundation Uganda (PSFU), founded in 1995, is an umbrella body for advancing private sector activities. Government and other DPs have implemented several projects through PSFU to strengthen the private sector. Most of these projects have been financed through loans and grants. But, according to the World Bank (Report, 2018),[15] private sector funding through foreign direct investment for Uganda declined from US$1.1 billion to US$0.8 billion between FY 2014/15 and FY 2015/16.

__Increase in debt burden:__ The Ugandan government is contracting loans to develop its private sector and channeling them through the PSFU. There is a high probability that the tight conditionalities on grant aid will force the government to borrow more funds. By 2015, Uganda's debt portfolio was already underperforming with loan absorption levels below 50%.[16] Public sector debt rose from 34.6% of GDP in FY 2015/16[17] to the current level of 38%,[18] accounting for only disbursed debt stock. The cost of servicing this debt is increasingly straining Uganda's national budget - it took 3rd priority in FY2017/18 (12.2%) compared to 4th priority in FY2015/16. In FY 2018/2019, debt servicing is the 2nd priority and makes the 1st call on domestic revenue. This is reducing budget allocations to public service delivery.

Ensuring that aid is used to support local economies and build the capacities of Ugandan Micro, Small and Medium Enterprises (MSMEs)

Uganda's private sector is largely defined by Micro, Small and Medium Enterprises. In fact they account for 90% of private sector production[19] and contribute approximately 75% of the GDP.[20]

The informal sector is dominated by MSMEs.[21] The majority are less than 5 years old. MSMEs typically have a high mortality rate with 90% operating for less than 20 years. Many informal small enterprises are family owned and often do not have a fixed address. This makes it difficult for them to access information and financial services to help their business grow and survive in competitive markets. The small number of SMEs that are registered can receive aid through the PSFU's programs.

Government, DPs and the private sector have come up with several initiatives to promote and develop the sector. However, these efforts have been generally scattered, uncoordinated, conflicting and isolated.[22] A range of factors have further stifled MSME growth, including the high level of informality, over protection of foreign investors, long procedures for starting a business, low innovation and productivity, and credit access challenges.[23] Government support has been minimal despite the sector's size.[24] In fact, the government's domestic borrowing has actually undermined MSMEs as it has contributed to crowding out the sector from access to funds as well as fueling competition within the sector.[25] Consequently, private sector credit has declined for the last 3 years because of rising interest rates. Commercial banks have attached stringent conditions on the sectors' access to credit,[26] a practice that will continue to suppress innovation, capacity, productivity and competitiveness of MSMEs.

Shaping the use of ODA in supporting the private sector

*Mutual accountability for expenditures of aid resources: A*s noted above, all stakeholders must develop mutual accountability mechanisms with clear guidelines. Just as important is reference documentation that determines the type and quantity of aid required in support of the private sector and in which areas. Improvements in planning could help reduce aid inflow fluctuations, late or varied disbursements against commitments and conditionalities.

Donors need to publish information on projects they fund in order to improve transparency, monitoring and accountability. Currently, few citizens are able to access and use aid information. A better functioning Aid Management Platform (AMP) would help in information dissemination on aid resources.

The Office of the Prime Minister (OPM) is responsible for tracking and evaluating results pertaining to aid flows and implementation of Government programs. The office oversees the implementation of the "Baraza strategy," a presidential initiative adopted in January 2009 to create space for citizens' participation in the development cycle through effective monitoring of the public service providers and demanding public accountability to enhance transparency. To this effect, DPs should liaise with OPM to share aid information relating to the private sector through the *"Baraza strategy"* in order to enhance openness. This information will empower citizens to engage in monitoring aid resource utilization within the sector, but also provide feedback to enable evaluation on resource effectiveness.

Mechanisms to ensure private sector support is coherent with policies and approaches for poverty reduction

The Ugandan government has spent considerable resources in fighting poverty through program development and implementation. However, evaluations show that poverty has persisted partly due to poor governance and policy implementation.[27] The deep roots of poverty are clearly evident at household and community levels and Government has the responsibility to eradicate poverty. However, some other stakeholders such as the private sector may only be interested in playing supplementary roles to achieve this common goal. Interventions should focus on poverty reducing sectors at the macro level, with effective programming and suggested solutions for the household level. The result should be programs accountable for their action plans on fighting poverty.

Projects/enterprises that focus on Uganda's niche and competitiveness are viable. One example would be a development/overhaul of the agriculture sector, which concentrated on the re-designing of agro-industry. It might include an examination of possible economic returns from investments in food processing enterprises that target ready markets such as South Sudan. The Uganda government's concentration on infrastructural development, especially roads, can be enhanced by supporting the growth of private construction companies. The result would have long-term benefits, as roads would enhance possibilities for delivering business to neighboring nations.

The private sector can help generate more jobs. MSMEs currently employ approximately 2.5 million people, contributing 75% of the GDP[28]. The "Buy Uganda, Build Uganda Policy", which was first established in 2014.[29] It could have the potential to boost growth and improve incomes of MSMEs if it's well blended with programs to support the private sector and implemented effectively. It is also important that it is consistent with the East African community customs protocols. As well, its effect on other member states should be closely examined. DPs and the Ugandan Government need to partner in localizing interventions that affect private sector productivity growth if the poverty reduction multiplier effect is to be realized.[30]

Orientation of private sector support to benefit stronger roles for women and girls in creating sustainable family livelihoods

Gender should be a crucial consideration in all trade issues as well as any strategies to promote socio-economic growth and sustainable development with the private sector. A strong female presence is evident in informal sector employment, with women represent 84% of this work force in Sub-Saharan Africa (World Bank, 2014).[31] Despite these roles and the existence of a good legal and policy framework,[32] the abuse of women's rights is still widespread due to persistent norms and stereotypes. As noted by Unilever:

> *"We believe that women's empowerment is the single greatest enabler of human development and economic growth – and that changing the norms and stereotypes that hold women back will enable society and our business to transform for the better."*[33]

Recognizing these challenges, initiatives to enhance the role of women in the private sector should be integrated into all sectoral policies and strategies and oriented along the following lines.

Initiatives must deal with cultural constructs to ensure gender attitude change: The growth of enterprises owned by women is constrained because of cultural constructs and stereotypes that limit their economic empowerment. In many rural communities discrimination against women leads to a loss of self-esteem, which jeopardizes their capacity to realize their economic potential. The use of mechanisms to support the private sector should be blended with gender attitude change tools for communities to appreciate the benefits of women's economic power. Gender attitude change can take a considerable amount of time, especially in communities that have long-standing traditions that are prejudiced against women. The involvement of several stakeholders, such as private sector agencies, women, girls, boys, men, local, clan, elders, opinion and cultural/traditional leaders, is instrumental in facilitating the transformation process of unlearning these discriminatory practices.

Economic empowerment of women is crucial. Because the majority of Ugandan women are centered inside a home care economy they do not have access to business knowledge or the use of updated ICT. The relatively low female literacy level is also a factor. For the last 10 years, the female literacy level has averaged 65.4% compared to the male level of 77.1%.[34] These conditions have undermined women's ability to effectively participate in the market economy. There are also other practical obstacles: many women have inadequate start-up capital; limited access to information and credit, and lack property or commensurate collateral, all of which are important foundations for business growth.

To promote women's economic empowerment, women cooperatives need to be established and existing ones strengthened. These organizations would be in a position to understand and address gender-specific risks and challenges,[35] including confidence building. Mentoring through activities such as guest speaking by successful business women or commercial trainings are other useful strategies. Both would empower entrepreneurs, through the knowledge and skills provided by experienced business women. Enhancing market linkages using ICT in order to make connections with high-tech e-commerce/business should also be encouraged in order to move towards gender equality in the business environment.

<u>Denial of property inheritance for women and girls</u>, which can be understood as a form of economic violence. In many rural communities in Uganda, women's contribution to property accumulation is not considered and widows are disentitled to property. Women lack access to, and ownership of productive resources. This limits their economic contributions to development of both themselves and their communities.

Implications of poor safeguards and regulatory frameworks for communities in developing countries

The volatility and limited predictability of aid financial flows makes it difficult to maintain its quality and benefits for communities. Programs to strengthen the capacity and competitiveness of MSMEs at the community level so that they can transition to bigger businesses can be frustrated by poor safeguards and regulatory frameworks for private sector support. The fragmentation of aid projects makes them considerably less valuable because of the costs and piece-meal benefits. Instead, joint collaborative efforts based on a division of labour amongst DPs should be pursued as this approach can consolidate aid outcomes for beneficiary communities. Project funding that is not harmonized amongst donors can lead to overlapping efforts, making development cooperation management costly and inefficient.

Adequate consultation and prioritization by beneficiaries in designing aid funded projects, which are aligned to national development policies, is likely to reap the best results.[36] When there is good transparency, aid benefits earmarked for either the productive or social sectors can be easily traceable. These approaches should be integrated into development strategies, plans and monitoring frameworks of local government, NGOs, CSOs, and DPs. A project needs effective implementation, monitoring and evaluation processes to achieve the desired results.

<u>The practices that propel Illicit Financial Flows (IFFs) deprive Uganda from mobilizing enough revenue for public service provision.</u> The NDP II notes that by 2030, IFFs should be significantly reduced to promote economic justice for all and inclusiveness for sustainable development.[37] Records of losses to other countries are uncertain. If DPs indulge in IFFs practices, income inequality and the unequal distribution of power will increase. Any sustainable development approach for Uganda must curtail mechanisms that facilitate illicit financial flows. This will mobilize domestic resources for long-term development.

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[1] The *Uganda Debt Network* is a policy advocacy organization that was formed in 1996 to campaign for debt relief for Uganda under HIPC Initiative of the WB/IMF. The organization promotes and advocates for poor and marginalized people to participate in influencing poverty-focused policies, demand for their rights and monitor service delivery to ensure prudent, accountable and transparent resource generation and utilization. UDN engages with various Government MDAs at national level, and through partnerships with Local Governments and nurturing Community Based Organizations at Sub national Levels.

[2] https://paanluelwel.com/2016/03/30/the-role-of-usaid-private-sector-in-uganda-how-the-private-sector-supports-ugandas-economic-growth/

[3] EPRC (2017), Linking Budgets to Plans in a Constrained Resource and Institutional Environment: *The Case of Uganda,* Pg 23

[4] Aid effectiveness (2011). Progress in Implementing the Paris Declaration. Volume II Country Chapters, pg 3

[5] EPRC (2017), Linking Budgets to Plans in a Constrained Resource and Institutional Environment: *The Case of Uganda, Pg 23*

[6] Ellmers B. (2010), Tapping the Potential? *Procurement, tied aid and the use of country systems in Uganda*, pg. 12

[7] Article 26, section (b) of the AAA (2008) emphasized that, *"…donors will provide full and timely information on annual commitments and actual disbursements so that developing countries are in position to accurately record all aid flows in their budget estimates and their accounting systems. Also* available at: http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/AAA-4-SEPTEMBER-FINAL-16h00.pdf

[8] MoFPED (2011), Report on External Assistance to Uganda

[9] DPs, recipient Governments, International Organizations, Civil Society, Parliamentarians, Local Governments and citizens.

[10] MoFED (2012), Summary of Project Support Managed Outside Government Systems, FY 2012/13, Pg 5

[11] DAC High Level Meeting, 15-16 December 2014, OECD Conference Centre, Paris, Paragraph 6

[12] The AMP was launched in 2014 and is hosted in the Ministry of Finance and is expected to manage and monitor aid resources.

[13] Expected to take advantage of private sector efficiency in the delivery of public goods and services

[14] MoFPED, A competitive Economy for National Development, Strategic Plan 2016 – 2021, Pg 5

[15] World Bank (2018), Uganda Economic Update; From Small Budgets to Smart Returns: Unleashing the Power of Public Investment Management, 7th Edition

[16] Auditor General's Report, 2015.

[17] MoFPED (2017), Debt Sustainability Analysis Report

[18] MoFPED, Budget Speech, FY 2018/19

[19] MoFED (2017), National Strategy for Private Sector Development: B*oosting Investor Confidence for Enterprise Development and Industrialization*, 2017/18-2021/22, Pg 3

[20] Ministry of Trade, Industry and Cooperatives. "Buy Uganda, Build Uganda Policy" 2014

[21] Financial Sector Deepening Uganda (2015), National Small Business Survey of Uganda, pg 1
[22] Ministry of Trade, Industry and Cooperatives (2015), Uganda Micro, Small and Medium Enterprise (MSME) Policy, pg 1

[23] i) World Bank (2015), Doing Business Survey, pg 2

ii) MoFPED (2017). National Strategy for Private Sector Development, 2017/18-2021/22, Pg 11

[24] PSFU (2014), An Analysis of Private Sector Growth Challenges and Proposals for Policy Reform, pg11

[25]i)MoFPED (2017), Debt Sustainability Analysis

ii) Bank of Uganda (2018), State of the Economy Report, March 2018

[26] MoFPED (2017). National Strategy for Private Sector Development, 2017/18-2021/22, Pg 14

[27] The Rural Farmer's Scheme (1987), Entandikwa scheme (1996), the Poverty Eradication Action Plan (PEAP) with lots of programmes for the poor, the current Prosperity for All Programme (2008), Plan for Modernization of Agriculture –(NAADs/Operation Wealth Creation which has no legal basis)

[28] Ministry of Trade, Industry and Cooperatives (2014), "Buy Uganda Build Uganda Policy

[29] The policy is expected to spur domestic consumption of local products while Government is responsible for creating an enabling business environment for private sector growth

[30] Poverty level declined from 56% in 1992/93 to 24.5% 2009/10. By 2014, it reached 19.7 % but increased to 27% by 2016, according to respective Uganda National Household Surveys (UNHS).

[31] World Bank (2014), *Informal Economy and the World Bank, Policy Research Working Paper no. 6888, P*g 7

http://documents.worldbank.org/curated/en/416741468332060156/pdf/WPS6888.pdf

[32] Articles 32 provides for Affirmative Action and 33 on the rights of women.

[33] https://www.unilever.com/sustainable-living/enhancing-livelihoods/opportunities-for-women/

[34] Uganda Bureau Of Statistics, Statistical Abstracts – 2015, pg 24 & 2017, pg 29

[35] Eg verbal violence, harassment, gender based and sexual abuse etc

[36] Like Private Sector governing policies, trade and investment

[37]National Planning Authority, NDP II 2015/16 – 2019/20, Pg 278