

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC14219

Project Name	Third Northern Uganda Social Action Fund (NUSAF 3) (P149965)
Region	AFRICA
Country	Uganda
Sector(s)	Other social services (100%)
Theme(s)	Social Safety Nets/Social Assistance & Social Care Services (100%)
Lending Instrument	Investment Project Financing
Project ID	P149965
Borrower(s)	Ministry of Finance, Planning, and Economic Development
Implementing Agency	Office of the Prime Minister
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	26-Sep-2014
Date PID Approved/ Disclosed	20-Feb-2015
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	28-May-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Uganda has experienced two decades of strong economic growth as a result of sound macroeconomic management. Economic growth rates in Uganda averaged 6.3% during the 1990s and 7.0% per year during the 2000s. The high rates of economic growth achieved during the 1990s were underpinned by a prudent fiscal policy, responsive private investment, stable prices and a liberalized economic environment. Due to high population growth, real gross domestic product (GDP) growth per capita averaged only 3.4 percent over the 1990s and just over 4 percent over the 2000s. Shocks to the Ugandan economy subsequently reduced economic growth, which averaged 5.8% over the past five years. Growth rates have been steadily improving in recent years as a result of macroeconomic stability, including single digit inflation and a more stable exchange rate. As a result, poverty has decreased significantly, although many people continue to subsist on low levels of consumption. Uganda's poverty rate declined from 31% in 2005/6 to 19.7% in 2012/13. In spite of this impressive achievement, the absolute number of people living in poverty has hardly changed as a result of high rates of population growth. Analysis of the international poverty line

suggests that many more people may be surviving on low levels of income, as 38% of the population was living below US\$ 1.25 per day in 2009. Additionally, 43% of Ugandans – up from 33% in 1992 – have a level of consumption that is equivalent to less than twice the poverty line and so remain very vulnerable to shocks and falling into poverty. This vulnerability to poverty is illustrated by the movement of people in and out of poverty over time. While 15% of the population moved out of poverty between 2005/6 and 2009/10, an additional 10.5% fell into poverty: 70% of those who escaped from poverty were replaced by others who became poor. Moreover, while the 2013 Human Development Report identified Uganda as one of 15 developing countries in which income growth had benefited the poor, its human development remains ‘low’ and it is ranked 161 out of 186 countries. This underscores the need to expand social protection programs to help the poor and vulnerable build their human capital.

Inequality among urban and rural areas and regions of the country is also growing. Rates of poverty are higher in rural (27.1%) than in urban areas (9.1%) and an estimated 94% of the poor population lived in rural areas in 2009/10. However, numbers of urban poor are rising as a result of urbanization, leading to high levels of deprivation in informal settlements. Poverty has declined sharply in the central and western regions (in part because of the growth of urban areas in these regions), while much higher rates of poverty continue to characterize the north, mid-north and east of the country, as a result of the legacy of conflict and violence in these areas. Poverty rates thus range from 0.4% in Kampala to 76% in the north-east region.

At the same time, the livelihoods of many households are vulnerable to the negative effects of shocks. Rainfall levels in Uganda vary from extremes of 400 millimeter per year in Karamoja to 2,200 millimeter per year on the Sese Islands in Lake Victoria. In recent years, Uganda has experienced cyclical (with a frequency of 10 to 12 years), frequent and severe droughts in most parts of the country, especially the northern and western parts which are particularly seriously affected. The northern region is especially vulnerable, prone to both floods and droughts as a result of high rainfall variability. Among households that reported suffering from a severe weather event over the past five years, over half were forced to lower their consumption in response to the shock. Importantly, however, poor households are more likely to report a reduction in consumption in response to shocks than were non-poor households.

Sectoral and Institutional Context

Social protection is increasingly seen as an important part of the government’s strategy to fight poverty and promote economic growth. The National Development Plan (NDP) 2010-2015 articulated a route to prosperity through economic growth and job creation. However, it also emphasized the need to ensure that wealth creation is accompanied by sustained reductions in poverty and improvements in the welfare of people living below the poverty line. Given this focus on economic growth with equity, the NDP highlights the need for social protection for people who are unable to work or lack basic resources. More recently, the draft Uganda Social Protection Policy (USPP) aims to reduce poverty and socio-economic inequalities for inclusive development. According to the policy, social protection is comprised of social security (contributory social insurance and direct income support (DIS)) and social care and support services. However, direct income support interventions are being implemented in isolation by different agencies leading to fragmentation, gaps in coverage and duplication. The main form of support to poor and vulnerable households during times of need has traditionally been through food aid, with a move towards the use of cash transfers since 2006/07. In 2013, total spending on direct income support amounted to USD 88 million. While this amount is low in comparison with the levels of spending on safety nets in other African countries, it represents a significant investment in the

sector. The effectiveness of this spending is limited, however; direct income support is fragmented across a large number of small programs that are largely implemented by non-governmental organizations (NGOs). The largest of these programs, which is the DFID-funded Social Assistance Grants for Empowerment (SAGE) program and the WFP-implemented Cash/Assets for Work - cover about 1% of the population . Almost all DIS programs are geographically targeted to northern Uganda, with the heaviest concentration of programs in the Karamoja sub-region. As a result, there is a significant level of under-coverage compared to the levels of poverty and vulnerability in the population.

The draft social protection policy aims to harmonize and promote effective coordination and implementation of social protection interventions. The draft Uganda National Social Protection Policy aims to (i) increase access to social security; (ii) enhance care, protection and support for vulnerable people; and (iii) strengthen coordination of social protection services. The government is currently finalizing the program plan of intervention (PPI) that details the strategy to achieve these goals. Consistent with the third goal of the above draft policy, a key focus is to develop, over time, a sustainable system through which Uganda's poor and vulnerable citizens are protected from shocks. To this end, the government's strategy requires that all social protection interventions be increasingly coordinated as part of a coherent system, pursue government priorities and be under its leadership, and commit to building on the existing portfolio of social protection interventions. Finally, it acknowledges that the social protection system needs to be built progressively, and thus that interventions would be introduced sequentially, responding to the government's key priorities and in line with its capacity.

Building on this approach, the objective for direct income support is to expand coverage through a sequencing of priority interventions, starting with public works and cash transfers. The government's strategy for direct income support is to build on those areas that have demonstrated results, for which implementation capacity has been built and for which there is strong political support. To this end, the PPI prioritizes the expansion of direct income support through two pillars: labor-intensive public works and unconditional cash transfers for older people. For the labor-intensive public works, the PPI recognizes that the multiple existing public works programs provide a significant source of experience and lessons and a clear entry point for addressing livelihood-related vulnerability to poverty. However, the PPI stresses the need to reflect on experiences to date and ensure that next generation public works programs are designed to be integrated into the emerging social protection system and deliver a clear social protection result. For the unconditional cash transfer pillar, the PPI proposes to extend the coverage of the social pension currently implemented through the SAGE.

A key priority is strengthening public works so that they contribute to the objectives of expanding direct income support coverage. Assessments of existing public work projects in Uganda highlight the significant scope that exists to improve the efficiency and effectiveness of these interventions. Currently, the cost of delivering public works is high, averaging about US\$ 3-5 per \$1 of benefit transferred . This is in part due to the fact that (i) they operate on a small scale; (ii) the non-wage costs of construction activities in northern Uganda (where almost all of the existing programs operate) are high due to remoteness; (iii) the fact that many of the programs involve costly layers of donor NGO involvement in implementation; and (iv) in many of the programs the transfers were a secondary benefit, with the primary benefit seen as being the asset developed. Moreover, the duration of employment tends to be short and the employment may be created at any time of the year, without concern for seasonal variations in consumption, and is often provided to each beneficiary household only once. Additionally, the lack of technical capacity among implementing

agencies at local level undermines the quality of the infrastructure that is created.

Despite these weaknesses, there is a solid base on which to build and expand. The Northern Uganda Social Action Fund phase two (NUSAF 2) has been investing in public works activities since 2009. The NUSAF 2, together with the complementary WFP-implemented Cash/Food for Work, has built experience and implementation capacity for public works in northern and eastern Uganda. While there have been some weaknesses in achieving the desired objectives, the NUSAF 2 has employed almost 18,000 people and, through the 45 subprojects completed, to date, has constructed 279 kilometers of access road and 282 culverts and planted 25 acres of trees. Significant investments are currently being made to project implementation to improve the quality and coverage of the public works activities of the NUSAF. The NUSAF 2 has also built strong fiduciary controls and accountability mechanisms that have ensured its ability to deliver services.

The National Social Protection Policy also recognizes the role of complementary investments for citizens to overcome risks and shocks. The draft Policy explains the role of investments in health, education and agriculture, among others, to complement social protection to reduce risks and vulnerability and promote more resilient livelihoods. Consistent with this approach, the NUSAF has been expanding access to income generating opportunities among poor and vulnerable households, by providing grants and business planning support to groups of beneficiaries. Recent data shows that the income of households that participated in these schemes increased from Ush 96,000 to 255,000 per month suggesting the positive gains from this intervention. An impact evaluation that was carried-out on the Youth Opportunities Program (YOP), which was operational during first phase of the NUSAF, provides more rigorous evidence on the positive results of such livelihood support.

Relationship to CAS

The proposed operation is fully aligned with the World Bank's Country Partnership Strategy for Uganda. The first strategic objective of the Country Partnership Strategy (CPS) for 2011-2015 is to promote inclusive economic growth and the third strategic objective aims to strengthen human capital development in Uganda. The proposed operation will contribute towards the achievement of these two results. Access to safety net support has been demonstrated to enable poor people to participate in the growth process, while also leading to improvements in their access to health and education services. These positive impacts on human development are particularly seen among children.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective (PDO) is to support the Government of Uganda to expand income-earning opportunities for poor and vulnerable households and put in place the building blocks for a social protection system.

Key Results (From PCN)

The key results for this project will be:

- a. Number of people participating in the labor-intensive public works program, reflecting the increased coverage of public works.
- b. Percent of public works component budget spent on wage, reflecting the labor intensity of the public works.
- c. Number of households participating in public works in two of the previous three years,

- reflecting the predictable, multi-annual nature of a safety net provided through public works.
- d. Number of households benefiting from the assets created, reflecting the creation of quality public works that contribute towards improving the productivity of livelihoods.
 - e. Number of people participating in the livelihoods investment support activities, reflecting the increased coverage of productive livelihood support.
 - f. At least one other project making use of the common public works framework, reflecting the aim of moving towards a national public works program in Uganda..

III. Preliminary Description

Concept Description

The proposed project will have three components: (i) Labor-intensive public works that will provide employment opportunities for poor and vulnerable households; (ii) Livelihood Investment Support for poor and vulnerable households; and (iii) Institutional support to build the social protection system. The project is currently estimated to be equivalent to US\$ 100 million and will operate over a period of four years.

Component 1: Labor-Intensive Public Works (USD\$60 million):

The public works component of the project will provide regular, seasonal employment opportunities to the poor and vulnerable households in selected districts through labor-intensive public works. It will also provide direct support to households that are eligible to participate in the project but have no labor capacity. The aim is to provide income-support to poor and vulnerable households in selected districts to smooth their consumption, promote investments in their human and productive capital and strengthen their resilience to shocks. The use of labor-intensive public works to transfer income to households provides an opportunity for the government to address the environmental degradation that is exacerbating the effects of shocks, such as the frequent floods and droughts in the country. In addition, public work component will also provide support to the more predictable shocks the poor and vulnerable households are facing, such as chronically food insecurity, a situation in which households are not able to produce enough for their own consumption. Due to the frequent occurrence of droughts, especially in the northern and western parts of the country, poor and vulnerable households remain chronically food insecure. Chronically food insecure households are not able to produce enough for the family's consumption and are exposed to food shortages during lean season. The public work component will provide poor and vulnerable households a seasonal transfer and smooth consumption during the lean season.

The proposed project will operate within a national framework for public works programs, which the government is putting in place with support from multiple partners. This framework aims to promote the use of common norms and standards for the delivery of labor-intensive public works, such that high rates of coverage can be achieved even when delivery is fragmented across many small initiatives. Within this framework, the project will provide support in a limited number of districts, prioritizing the 55 districts in the north and east of the country that participated in the NUSAF 2. It will also coordinate with the WFP-implemented Cash/Food for Assets program to minimize overlap in these areas. Preliminary estimates suggest that this component would provide support to 100,000 households per year . Given the aim of integrating the project into the national public works framework and the emerging social protection system more generally, the targeting criteria and methodology will consider the interface of the public works with the SAGE social pension to provide coherent support to poor and vulnerable households in project areas (see paragraph 26 for more on this point).

The public works activities will create assets that provide benefits to households and communities. While the exact assets to be created will be identified by communities through a local planning process, these could include the creation or maintenance of rural access roads, tree nurseries, afforestation, construction of different soil and water conservation measures, and flood control structures, rainwater harvesting, rehabilitation and construction of market shelters, rural health facilities, and schools, among others. The project will finance capital and technical inputs for these works, such as masons carpenters, as well as the tools required for the labors to help ensure that the public works are built to a high quality.

The labor-intensive public works will be designed to respond to the specific needs of women. A quota will be established to ensure that at least 40 percent of public works participants are women. Quotas will also be put in place to ensure that women are represented on local committees and through the community-planning processes to increase the likelihood that the assets benefit them as well as men. Steps will also be taken to facilitate their participation in the public works, including the provision of childcare at public works sites and procedures to allow pregnant and breast-feeding women to be exempt from the work requirements for a specified period.

The public works component would specifically finance: (a) Wages/transfers for the beneficiaries participating in the public works activities, including direct support to households that are eligible for support but without able-bodied members. The frequency, duration and amount to be transferred will be determined during the preparation process; (b) Equipment, materials and skilled labor to promote the quality of the public works.

Component 2: Livelihood Investment Support (US\$ 25 million):

This component will support the government's aim to extend livelihood support to poor and vulnerable households to increase the productive assets and incomes of beneficiary households. The focus of this component is to stabilize and improve the existing livelihoods of poor households in farm and in non-farm sectors and subsequently support households to diversifying their livelihoods. As agriculture is the mainstay for a large proportion of the rural poor, the livelihood component will lay special focus on sustainable agriculture and allied activities like animal husbandry, non-timber forest produce, fisheries and value addition to agricultural produce. The experience from the NUSAF 1 and 2 has demonstrated the effectiveness of this approach (see paragraph 32). The proposed operation aims to build on this experience to further improve the efficiency, effectiveness and coverage of livelihood activities.

More specifically, Livelihood Investment Support component will provide grants to participating households that have completed a set of activities (e.g. have a business plan in place, have participated in training programs and have demonstrated willingness to save). These grants are complemented with business support, which includes training and skills development, coaching and mentoring. Building on the experience of NUSAF 1 and 2, participating households will be encouraged to form groups to access the grants and business support.

The livelihood component will work on three pillars:

- a. Livelihoods Enhancement through value-addition to existing family-based small income generating activities. This will enhance and expand existing livelihoods options and tap new opportunities within the key livelihoods like agriculture, livestock, fisheries and forest produce collection. To this effect, it will provide support to add value to the existing income generating

activity and make it more effective and increase its income and profit. This will stabilize and improve the existing livelihoods of poor households;

b. Training and support for self-employment: training, small grant and business support services will be provided to beneficiaries of this component to access gainful self-employment. Experience of NUSAF 2 showed that groups of poor and vulnerable households, particularly those who are in the rural areas, often lack business skills to be able to manage their productive assets effectively to generate income. Through this component, business management skills training will be provided to groups before they can access small grants to increase their productive assets. Business skills training could focus on basic financial, marketing and operations management, including support to developing a business plan; and

c. Small grants to youth (both male and female) groups to support skills training, tools and materials in a vocation of the youth's choosing. The Youth Opportunities Program (YOP) which was the livelihood support component of the NUSAF 1, provided cash grants to groups to support skills training, tools and materials in a vocation of the youth's choosing, and enable them to practice their trade individually or as a group. The findings of the impact evaluation of YOP indicated that this approach is highly effective.

While this component will operate in the same areas as component one, poor and vulnerable households will choose between the two forms of support. At the same time, the project will explore whether the provision of public works and the livelihood support could graduate people out of poverty. This will be carried-out through a pilot that will be rigorously evaluated.

Component 3: Institutional support to build the social protection system (US\$ 15 million).

The aim of this component is to support the government to lay the foundation for the social protection system that is envisioned in the draft Uganda Social Protection Policy. The Ministry of Gender, Labour and Social Development (MGLSD) is responsible for overseeing the social protection sector and has been spearheading the formulation of the USSP. The component will thus support the MGLSD to establish and strengthen systems to promote the harmonization of the direct income support elements of the social protection sector, such as the national framework for public works that was discussed above. It will also invest in the systems and procedures that are required to deliver predictable, multi-annual labor-intensive public works. Finally, it will contribute to the DIS system by building on the success of the governance and accountability mechanism of the NUSAF 2.

Given the mandate of OPM to manage the project, and the mandate of the Ministry of Local Government and the communities to implement the project areas, the following activities led by these institutions:

a. To contribute towards laying the foundation for the social protection system in Uganda, the project will support the establishment of the national framework for labor-intensive public works. It will also seek to improve the delivery of labor-intensive public works, specifically focusing on the planning of the public works, the targeting of households, the systems used to pay beneficiaries, and the monitoring and evaluation of the activities, as a means of contributing to strengthening these elements within the social protection sector more broadly. Investments in the targeting and payments systems, in particular, will be carried-out in a manner that would aim to promote harmonization and lesson learning across the direct income support sub-sector. To this effect, the project will create common targeting and payment systems that will avoid overlapping of programs and promote efficiency and effectiveness of DIS intervention. There is little evidence on the effectiveness of targeting systems for direct income support in Uganda, although there are

suggestions that simple, transparent systems are more likely to be supported by communities. In general, programs tend to use a mix of categorical and poverty-targeting, although there is a general sense that poverty-targeting is costly and ineffective. As such, there is significant scope to improve the targeting of labor-intensive public works programs, with potential lessons for the sector more generally. In relation to delivery of payments, the component will support the use of Private Sector Payment Service Providers (PSP) which will ensure secure and timely payment of beneficiaries . While there is experience in Uganda with the use of third-party PSPs, to date, these have been used by projects that operate outside of government systems.

b. The project will also establish the foundation to enable the public works program to scale-up in response to shocks, such as drought and floods. Internationally, there is a growing consensus that responding to shocks through an established safety net is more effective than providing humanitarian response. While food aid saves lives, it often arrives too little and too late to allow people to protect their livelihoods. In contrast, increasing the coverage, frequency of transfers or transfer values of a safety net program before the shock occurs has been shown to enable people to protect their livelihoods and assets. Such scalable support thus reinforces the protective function of regular safety net transfers. The proposed operation will use, to the full extent possible, the existing early warning system to inform a response to shocks through the public works in project areas.

c. Concurrently, this component will support the establishment of the systems and procedures that are required to deliver the labor-intensive public works and the livelihood investment support activities. Significant investment in operational systems, procedures and capacity at national and local-levels, including the hiring of staff and procurement of vehicles and equipment, will be availed through component 3. It will also require that measures be put in place to mitigate the fiduciary risks arising from the delivery of cash transfers to a large number of beneficiaries. The experience with the NUSAF 2 will inform the detailed activities to be financed under this component. However, care will be taken during the design of the project to reflect on the lessons learned from the administration of the NUSAF 2, which was very effective but also relatively expensive as compared with international experience.

Finally, this component will finance the Transparency, Accountability and Anti-Corruption (TAAC) activities that were initiated under the NUSAF 2 project. The objective of the TAAC activities under NUSAF 2, which is implemented by the Inspectorate of Government (IG), has been to strengthen transparency, accountability and anti-corruption efforts in northern Uganda. The NUSAF 2 project is used as an entry point to develop stronger systems for communities and local authorities to promote improved governance in development. To this end, Social Accountability Committees (SAC) were elected at the community-level, as a requirement for a community to receive funding for a NUSAF 2 sub-projects in their community. The IG provides, in collaboration with Civil Society Organizations, training to SACs to build the capacity of communities to promote transparency and be able to identify corrupt tendency and thereby improve accountability. The SACs are responsible for holding the Community Project Management Committee (CPMC), government officials, and also the private contractor hired for the sub-project, to account. SACs act as the first point of call for any project grievance.

The Office of the IG has developed a reasonably effective system to address grievances which encompasses the application of sanctions against local government officials proven to have mismanaged funds or circumvented project procedures. Because the IGG is legally equipped to administer sanctions, their proactive role in enforcing compliance of project regulations appears to have served as a powerful deterrent to corruption. As a third party monitoring agency, the IGG's proactive role in training the SAC members, regular monitoring of the project at various levels and

enforcing compliance of project regulations have served as a powerful deterrent to corruption. The design of the new operation will incorporate the experience and lessons learned during the implementation of the NUSAF 2 and will continue to use IGG as a third party monitoring.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36			x
Pest Management OP 4.09	x		
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10			x
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37			x
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	130.00	Total Bank Financing:	130.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			130.00
Total			130.00

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