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January 14, 2013

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Uganda: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

December 21, 2012

Letter of Intent

Kampala, Uganda
December 21, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde:

On behalf of the Government of Uganda, I would like to provide you with an update on the progress we have achieved under our economic program supported by the IMF's Policy Support Instrument (PSI).

Since the last review, tight monetary and fiscal policies have successfully reduced inflation, allowing it to reach the Bank of Uganda's inflation target, but economic activity has taken a toll. Our policy focus has now turned to strengthening economic growth, which is essential to alleviate poverty and address unemployment.

Unfortunately our growth-enhancing efforts have been negatively affected by the suspension of budget support by our development partners following a regrettable mishandling of public resources. We are deeply committed to restoring fiduciary assurances and rebuilding confidence, and have already started to take action against the involved officials and to strengthen our financial management systems.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the Government's objectives and policies for the remainder of this financial year and indicates our thinking for the medium term. No quantitative assessment criteria were missed for June 2012, and the majority of indicative targets and structural benchmarks were achieved or missed by small margins. We hereby request modification of assessment criteria for end-December 2012, and completion of the fifth review under the PSI, and a program extension until August 10, 2013. At the completion of the sixth and final review, we will request a successor arrangement.

The Government believes the policies set forth in the MEFP are fully sufficient to achieve the objectives of our PSI-supported program, but as always we stand ready to take any further measures that may become appropriate for this purpose. We consent to publication of the documents for this fifth review under the PSI. We intend to work with the IMF and other development partners in the implementation of our program, and will consult with the Fund on the adoption of any such further measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

Sincerely yours,

/s/

Maria Kiwanuka
Minister of Finance, Planning and Economic Development

Attachments
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

cc: Prof. Emmanuel Tumusiime-Mutebile, Governor, Bank of Uganda

Attachment I: Memorandum of Economic and Financial Policies

December 21, 2012

Introduction

1. This Memorandum of Economic and Financial Policies presents an **update on the economic performance** in the second half of the fiscal year 2011/12, and lays out the policies Government is undertaking **over the period ahead** to stimulate growth and job creation while maintaining overall macroeconomic stability.

2. Thanks to firm measures that have been taken by the Bank of Uganda (BoU), inflation, which accelerated to unacceptable levels in mid-2011, has been reduced. Moving forward, the focus of government policies will be on **stimulating a recovery of real GDP** growth, which has fallen behind Uganda's impressive performance in the past decade, while preserving macroeconomic stability.

3. Unfortunately, **the suspension of budget support** equivalent to 1.3 percent of GDP by several development partners following the uncovering of large scale corruption in the public administration will impede economic recovery in 2012/13, in particular because Government will not have sufficient budgetary resources to implement the fiscal stimulus in the amount it had hoped to provide to the economy. Although the easing of monetary policy, which began in the second half of 2011/2012, will provide some support to domestic demand, because of the smaller fiscal stimulus and weak external demand, real GDP growth is only projected to rise to 4.25 percent in 2012/13 from 3.4 percent in FY 2011/12.

4. Government, after consulting with development partners, has drawn up a **Public Financial Management Reform Action Matrix** designed to strengthen controls against corruption, recover stolen money and protect priority areas of the budget. The implementation of Public Finance Management (PFM) reforms is intended to send a strong message that Government is committed to fighting corruption and reducing its impact on ordinary Ugandans. Further, Government is committed to implementing the actions necessary to normalize relationships with development partners culminating in the lifting of the suspension of official external flows. This will be critical to allow fiscal policy to contribute to economic growth over the medium term.

A. Performance under the PSI

5. All seven **Quantitative Assessment Criteria (QACs)** for end-June 2012 were met. The increase in net credit to the central government by the banking system was below the ceiling by Ush 693 billion. The ceiling on the increase in net domestic assets (NDA) of the BOU was also observed, and international reserves exceeded the target by US$403 million. Government incurred no external payment arrears, and borrowing on non-concessional terms remained about US$545 million below the PSI three-year ceiling of US$1 billion. The over-performance on reserves was welcome—and although it did have the effect of driving end-September base money above its indicative program target, our inflation objective was in no way compromised as evidenced in the sharp turnaround of inflation trends. Unfortunately, the end-June stock of domestic arrears was around 0.5 percent of GDP, exceeding the zero limit set in the program as indicative target, and the indicative target on poverty reducing spending was missed by a small margin. Moving forward, we request an extension of the PSI, currently scheduled to expire in May 2013, until August 10, 2013 to provide sufficient time to complete the 6th and final review under the PSI.

6. The majority of the **structural benchmarks** in the program were also met. The names of beneficiaries of tax exemptions were gazetted and published, and we have developed an index of high-frequency economic indicators. Government's net and gross position in the BoU is being reported. We have published cash releases and actual payments for power and water obligations of spending ministries, although the sanctions applied to the accounting officers who allowed arrears to accumulate are not yet public. However, the quarterly report on unpaid bills of nine Ministries based on data in the Commitment Control System (CCS) to be submitted to Cabinet for the previous quarter of the fiscal year has been delayed, but the memorandum is being prepared. Delays have also occurred regarding the benchmark to publish the balances as of June 30 and September 30 on all government accounts in the BoU and commercial banks, and to seek parliamentary approval as well as supporting work and procurement plans to spend any balances held over from the previous year beyond end June.

Economic and Policy Developments

A. Macroeconomic outturn in FY2011/12

Growth and inflation

7. Due to both internal and external factors, Uganda's **economic growth** rate declined from 6.7 percent in FY 2010/11 to 3.4 percent in FY 2011/12. Factors included internal shocks such as power outages which impacted on private sector competitiveness; high inflation, which led to very high interest rates; and a reduced fiscal impulse due to capacity related delays in implementing the Government investment program—particularly in the construction and energy sectors. External shocks were related to the global financial and economic crisis, which resulted in continued low demand for exports from Uganda's traditional trading partners and in a limited export penetration into emerging markets in Asia including China and India.

8. Annual **inflation,** which rose to a peak of 30.5 percent in October 2011, has dropped to 4.9 percent in November 2012 as a result of tight fiscal and monetary policies. Core inflation dropped from 30.8 percent to 3.8 percent in the same period.

Fiscal outturn

9. The **tax revenue** outturn amounted to 12.0 percent of GDP compared to 12.7 percent in FY 2010/11. This performance was mainly explained by low real GDP growth and high inflation, and was exacerbated by delays in clearance of goods at the Mombasa port. Total **expenditure and net lending** was below the budget largely due to the significant underperformance on the development budget. Significant difficulties were encountered in executing the public investment program. Recurrent expenditure exceeded the budget mainly on account of higher domestic interest rates and non-wage recurrent outlays. However, development expenditure fell substantially short of the budget target largely due to the delayed commencement of the Karuma hydropower plant. There was also a shortfall of nearly US$ 60 million on donor disbursements affecting the external component of the budget. Largely because of the capital expenditure shortfall, the **overall deficit** for FY 2011/12 was 3.0 percent of GDP compared to 4.3 percent in the previous fiscal year. This contributed to the weak growth outturn in FY 2011/12.

Monetary policy and inflation

10. The BoU introduced **an inflation targeting lite** (ITL) monetary policy framework at the start of FY 2011/12, which employs the central bank rate (CBR) as the operating target and an inflation target as the nominal anchor. Under the new framework, the BoU conducts monetary policy using secondary market instruments, mainly repurchase and reverse repurchase operations. The introduction of ITL has been a success, as shown by the reduction in inflation and the effectiveness of the CBR as a signaling device.

11. **The ITL framework** allowed the BoU to reduce mounting inflationary pressures from a combination of food supply shocks, exchange rate depreciation, very strong private sector credit growth, and, up to the end of FY 2010/11, a rising fiscal impulse. In response, the BoU raised the CBR from 13 percent in July 2011 to 23 percent in November 2011, thus curtailing private sector credit and aggregate demand. Coupled with improved food supplies, this led to reduced inflationary expectations. With an abatement of the food price shocks, the reversal of the fiscal impulse, a strengthening of the nominal exchange rate—partly due to strong portfolio inflows in response to higher domestic interest rates—and a sharp deceleration of credit growth, inflation began to fall by the second quarter of FY 2011/12. The easing of inflationary pressures allowed the BOU to begin cutting the CBR in February 2012 and this was followed by further reductions which brought the CBR to 12.5 percent in November.

Banking sector performance

12. **Banking sector credit to the private** sector fell significantly in the course of the fiscal year as a result of monetary tightening, but has begun a slow recovery. Banks recorded strong profits in FY2011/12, with the aggregate return on assets rising to 4.4 percent, mainly due to a widening of the margin between deposits and lending rates. Non-performing loans increased from 1.6 percent of total loans at end June 2011 to 3.9 percent at end June 2012. Nevertheless, because of strong profitability, core capital increased to 18.3 percent of risk-weighted assets at end June 2012 from 17.3 percent at end June 2011.

Outlook and Key Economic Objectives

A. Key goals

13. **The key macroeconomic goals for FY 2012/13 are to stimulate economic growth and begin to close the negative output gap, reduce high unemployment and poverty while maintaining macroeconomic stability**. However Government's plans to stimulate economic growth through a fiscal stimulus have been weakened by the suspension of budget support by development partners. Government will accommodate the shortfall of budget support through a combination of cuts to budgeted expenditures and additional domestic financing (the details are in paragraph 17 below). The former will reduce the planned fiscal impulse in 2012/13.

14. **Nevertheless, Government will continue to implement the structural reforms to the budget which are intended to increase the efficiency of public spending and enhance its contribution to economic growth in the medium term**. The envisaged structural policies include reforms to improve government project implementation capacity, promote productivity, and reduce the cost of doing business for the private sector, including through an intensified fight against corruption and theft of public funds. In addition, Government has drawn up a matrix of PFM reforms (see paragraph 28 for more details) designed specifically to tackle corruption in the public administration, build public trust, and restore development partners' confidence in the fiduciary credibility of the budget, which is imperative if the suspension of external support is to be lifted.

B. Macroeconomic outlook and risks

15. **Real GDP growth is projected to increase to only 4.25 percent in FY 2012/13 from 3.4 percent in 2011/12, with inflation averaging 6.2 percent**. Besides the shortfall in financing for public investment, the main constraints to a stronger recovery lie on the demand side of the economy. External demand continues to be very weak because of the problems in the global economy, with GDP growth forecasts for several of Uganda's major trading partners and sources of remittances scaled down in the October WEO. The BOU began easing monetary policy in February 2012 but this has only recently started to be translated into an expansion of bank lending to the private sector. Consequently, aggregate demand is expected to remain subdued throughout most of 2012/13.

16. **Risks to inflation emanate from possible food price and exchange rate pass through effects, but these risks may be offset by continued slack in the economy, with real output projected to remain well below its equilibrium level at least until the 2013/14 fiscal year**. The trade balance is expected to widen reflecting robust import volumes to support investments in the oil sector and commencement of the Karuma hydropower plant, coupled with sluggish growth in exports. Nonetheless, Uganda will continue to be a major source of food for the region which will have a positive effect on the balance of payments.

C. Fiscal policy

17. **Government will substantially revise its fiscal strategy in 2012/13 because of the suspension of budget support announced by development partners in November following the uncovering of large scale corruption in the Office of the Prime Minister (OPM) and the Ministry of Public Service (MPS).** The total amount of budget support which is subject to the suspension is $282 million (equivalent to 1.3 percent of GDP). Government will accommodate the shortfall in budget resources by a combination of expenditure cuts and additional domestic financing. Expenditures will be cut by 0.8 percent of GDP, most of it in development spending while recurrent spending will only be cut moderately because it already dropped from 11.2 percent of GDP in FY 2011/12 to 10.3 percent of GDP for this fiscal year. Domestic borrowing will be increased by 0.7 percent of GDP. The latter will involve additional issuance of government securities through primary auctions. These actions will increase the fiscal burden to Government due to higher interest rates which will translate into higher cost of borrowing to the private sector. This will contribute to reduce the pace of economic recovery in the short term, but will still allow Government to prioritize spending favoring high quality outlays.

18. **Given the shortfall in the budget resource envelope in 2012/13, government will ensure that the funds allocated to line ministries are spent on the intended expenditure items and projects**. Each quarterly release to MDAs will be conditioned on a work plan for activities and on an account of cash released in the previous quarter including unspent balances.

19. **Government hopes that development partners will restore budget support by June 2013 and thereby allow for an expansion in the budget resource envelope in the 2013/14 fiscal year and beyond.** This will enable Government to address critical constraints to growth over the medium term. To achieve this objective, it will scale up investments in infrastructure, particularly in roads, railways, energy and water for irrigation. To ensure expenditure efficiency gains, Government will mobilize external resources in line with its debt strategy, and will invite private sector participation in infrastructure projects.

20. **Government submitted to Parliament the Public Private Partnership Bill with the aim to ensure that PPP-related public liabilities are properly budgeted, appropriated, and accounted for and that potential risks embodied** in this service delivery framework are properly mitigated and integrated in the macroeconomic framework. Government will prepare a status report of all ongoing PPP programmes. Inclusion of this status report in the Budget Framework Paper by end March 2013 will be a structural benchmark under the program.

21. **Another key priority is to increase agricultural productivity to boost exports, food production and create employment**. Specific actions in this area include the provision of improved seeds, farm inputs and implements to increase production and productivity; and investments in irrigation schemes in partnership with the private sector. Furthermore, Government will boost investments in rural feeder roads to increase access to markets and lower production costs.

D. Monetary and financial sector policies

22. Core inflation was brought down to the 5 percent target by the end of the first quarter of FY2012/13. The BoU will continue to set its policy interest rate at a level consistent with achieving its announced inflation target while, in the short term, supporting stronger growth in aggregate demand to bolster real GDP growth. With output below potential, there is unlikely to be a conflict between the inflation and growth targets in the short term unless there is a substantial supply side shock.

23. The BoU will ensure that the expected increase in commercial bank lending occurs in a stable prudential environment. To this end, the BoU will ensure that credit and currency risks are appropriately assessed, particularly given the recent deterioration of asset quality and the increase in the share of dollar-denominated loans. Legislation which is due to be tabled before Parliament includes a statutory instrument to introduce a capital charge for market risk.

24. Moreover, legislation already enacted will raise the minimum paid up capital for already licensed and operating banks to Shs 25 billion in March 2013 (**from the current level of Shs 10 billion)**. Six of the existing 23 banks will need to mobilize additional capital to meet the March 2013 deadline. The government will also propose amendments to the Financial Institutions Act, which will inter alia, allow banks to engage in banc assurance and provide Islamic financial products.

E. Balance of payments and the exchange rate

25. The current account deficit is projected to remain broadly unchanged an 11¼ percent of GDP in FY 2012/13. The trade balance in goods and services is expected to benefit from lower government imports and continued strong performance of the tourism industry. The capital and financial account surplus, however, is projected to fall in 2012/13, mainly because of much lower short term net private capital inflows and the suspension of budget support loans. While the overall balance is projected to remain in surplus in 2012/13, the surplus will be lower than that in 2011/12. Because of the suspension of budget support by development partners, the BoU has scaled back its target for the accumulation of foreign reserves in 2012/13 from $221 million to $70 million. The BoU will pursue a flexible exchange rate policy which will support the adjustment of the real exchange rate to a more sustainable level, but will take appropriate action to dampen short term volatility.

F. Medium-term outlook

26. Government aims to raise output back to its potential level over the medium term while maintaining inflation of around 5 percent. Sustaining higher growth over the medium to long term will require addressing critical infrastructure gaps in the economy. Financing the needed investment will require leveraging private participation and financing to complement public funds. Furthermore, the National Development Plan will be reviewed by March 2013 to ensure that emerging priorities are reflected in expenditure planning.

G. Structural reforms

Public financial management reforms

27. **Government is prioritising public financial management reforms to be implemented in both the short and medium term**. The reforms include administrative measures and major changes to legislation.

28. **The attached High Level PFM Reform Action Plan Matrix comprises short term measures, the implementation of which began in November 2012, designed to restore confidence among the public and development partners in the fiduciary standards of the budget**. The matrix includes measures to: i) put in place a coordination strategy for PFM reform; ii) prosecute all public officials involved in corruption and recover stolen money; iii) strengthen the fidelity of PFM systems through forensic audits of the systems themselves and of major public expenditure heads in the budget, fully operationalize the Integrated Payroll and Pension System (IPPS), and rotate all officials responsible for monitoring and enforcing fiduciary standards in the public service, and iv) ensure that allocations to key priority areas of the budget, particularly those crucial to support economic growth, are protected in H2 2012/13.

29. A **Public Expenditure and Financial Accountability Assessment (PEFA) was completed in September 2012 and a parallel exercise is currently ongoing for local governments**. Key areas for improvement include ensuring budget credibility, improving policy based budgeting, upgrading controls in budget execution and strengthening revenue forecasting.

30. **Government presented to Parliament a new Public Finance Bill, which seeks to consolidate the existing 2003 Public Finance and Accountability Act (PFAA) and the Budget Act 2001**. It aims at strengthening the macroeconomic framework by introducing a Charter of Fiscal Responsibility. This bill was preceded by Government approval and publication of the oil and gas revenue management policy in February 2012. It is expected that this Bill will be enacted into law during FY 2012/13.

31. **The Executive arm of Government will work with Parliament to ensure that the approved Bill reflects best international practices.** In particular, Government will ensure that the final form of the draft bill contains:

- Appropriate measures to ensure that natural resource revenues are managed transparently and sustainably, while avoiding the introduction of inflexible and unrealistic practices for the use of the petroleum investment reserve such as using future oil revenues as collateral for Government borrowing;

- Measures to minimize extra budgetary funds. Special funds will only be established by an act of Parliament and be prohibited from running deficits;

- Rules limiting withdrawals from the Consolidated Fund without legal appropriation to payments of tax rebates authorized by law;

- Realistic rules on the management of the contingency fund to provide for supplementary budgets and other emergencies. Language that defines all excessive expenditure as a loss of public money will be replaced by more realistic rules;

- Provisions to expand the coverage of public sector institutions beyond the central government;

- Clear procedures for handling the Auditor General's report on the government's annual accounts;

- Provisions to ensure that Government accounts that remain dormant or inactive for one year are automatically closed by BOU.

32. **Government shall introduce a Treasury Single Account (TSA) to improve cash management, control, and transparency of government operations and to avoid unnecessary interest costs**. In preparation for this, Government will request technical assistance from the IMF. To this end, the program will contain a structural benchmark on the preparation of a concept note, to be finalized by March 2013, reflecting the decision to introduce a TSA.

33. **In parallel, the government will introduce measures to ensure that all non wage expenditures are initiated and recorded without delay in the Integrated Financial Management System (IFMS)**. These measures will cover both the commitment stage, including the issuance of local purchase orders (LPOs), and the goods received and payment stages. To ensure that the measures are respected by suppliers, the government will publicize these measures in newspapers, informing suppliers that use of non-authorized procedures will null-and-void any LPOs and result in government action to recover any payments made. Furthermore, the government will make penalties and sanctions automatic for any staff failing to follow the new procedures and to respect IFMS recording deadlines.

34. **A recent audit revealed a still-high level of non-pension arrears, which weakens the credibility of the budget and decreases transparency and accountability**. In response, Government intends to implement the following measures: (i) installing pre-paid meters for utilities (already started in Kampala with the power sector); (ii) requiring accounting officers to provide detailed justification for arrears to assess their authenticity; (iii) holding officers responsible for any loss of public monies; and (iv) strictly enforcing the practice of rotating accountants and procurement officers that started in 2010.

35. **Government is also taking measures to eliminate the scope for diverting budgetary funds which remain unspent at end of the fiscal year, including by**: (i) undertaking a review of all project accounts with the objective of maintaining only active accounts by end December 2012; (ii) freezing all domestic projects accounts by end June and publishing them on the MOFPED

website; and (iii) maintaining frozen all unspent balances that have not been authorized for carry-over into the next financial year, and closing the account if no request is made by the accounting officer to activate the account within six months.

Revenue enhancement measures

36. With fiscal revenues low by regional standards, domestic revenue mobilization poses the greatest risk to fiscal sustainability. Government will continue to improve tax policy and administration to enhance revenue collection and achieve the target of increasing the tax-to-GDP ratio by 0.5 percentage points per year. Actions on this front include introducing a tax procedure code; revising tax legislation on excise duties, lotteries and gambling; rolling out e-tax services to upcountry stations; and educating taxpayers on e-registration, e-filing and e-payments. Over the medium-term, and beginning with the FY 2013/14 budget, prospects for enhancing revenue collection and ensuring Uganda's tax system performs at a level comparable to other EAC countries will require a rationalization of tax expenditures, in particular for the VAT and CIT; and a more efficient tax administration. Government intends to seek IMF technical assistance in designing the fiscal regime for prospective mining revenues.

Pension reform

37. Government is advancing reforms in the pension sector. In September 2011, a new regulatory legislation for the pension sector became effective and in August 2012 the Retirement Benefits Regulatory Authority for the entire pension industry was put in place. The Retirement Benefits Sector Liberalization Bill, which is currently before Parliament, introduces competition in the pension industry, increases pension coverage, and improves governance of retirement benefits (pension) schemes. Government will request technical support from the IMF and World Bank to bring the proposed legislation in line with international best practices.

Reforms to strengthen the ITL framework

38. BoU and Government are strengthening the ITL monetary policy framework. In this regard, BOU is refining its use of secondary market operations to guide interbank rates towards the policy rate. To guide its evaluation of the state of the economy, BoU has developed a monthly composite indicator of economic activity, with technical support from East AFRITAC. It will prepare and publish its first quarterly inflation report in the second quarter of 2012/13. BoU is receiving TA from the Research Department of the Fund to strengthen technical capacities for forecasting and modeling. On the institutional side, Government will recapitalize BoU to ensure that it has adequate resources and instruments to fully implement its monetary policy decisions. A technical assistance mission from the Fund to strengthen selected areas of the ITL institutional and operational framework and to improve coordination between fiscal and monetary policies is expected to take place in December.

Domestic debt management

39. Government has prepared a policy document proposing reforms for domestic debt management. The purpose is to clearly differentiate issuance of securities for fiscal policy purposes from any that the BoU may need to use autonomously for monetary policy purposes. The reforms in the policy document will be included in the revised Debt Strategy 2012 to be published by the end of March 2013.

Expenditure efficiency improvements

40. Government will implement expenditure efficiency measures to ensure full budget execution of priority programs and prevent disruptive intra-year adjustments to the budget. On the enactment of the PFA, government will adopt a zero-tolerance policy on supplementary requests above the Contingency Fund and outside the productive priority sectors, and will protect funds allocated to ongoing key priority investments on roads, energy and water to avoid carrying forward outstanding unpaid certificates.

41. Government has introduced an approach called Contractor Facilitated Financing (CFF), a system that integrates supplier credits into the tendering process, which is aimed at reducing delays in the implementation of Government projects in the roads sector. Government considers that this approach has the potential to improve the efficiency of project execution, but is fully mindful of its inherent risks. Consequently, Government will ensure full transparency in the use of CFF including by publishing details of all agreements, clearly differentiating the gross cost of the projects from their financing terms and evaluating the relative costs of any projects in gross terms for the purposes of tender of procurement. To this end, Government will prepare in consultation with Fund staff, by April 2013 a policy paper on the process and procedures for managing the CFF, including provisions on the publication of tender results.

42. A review of the Public Investment Program (PIP) which was originally expected to be carried out and submitted to cabinet in September 2012 was not completed. Government will complete this exercise by end February 2013. The review is intended to ensure that the PIP only contains projects for which cost-benefit analysis and feasibility studies have been conducted and for which sources of financing have been secured. Government will ensure that capacity is developed in respective sectors to carry out cost benefit analysis and prepare feasibility studies. The project portfolio reviews will be on a quarterly basis to ensure implementation of projects by implementing agencies. This will also facilitate credible alignment of the National Development Plan priorities with the Medium Term Expenditure Framework (MTEF) and improve project quality.

National identity cards

43. Delays in the procurement process have affected the timely issuing of national identity cards. However, Government remains committed to proceed with this process as it will greatly facilitate tax administration and financial sector development. Despite this commitment, the issuance of 4 million cards by December 2012, as specified in the PSI's structural benchmarks, is out of reach. Instead Government will endeavour to issue 2 million cards by December 2013. To bring this project back on track, Government will carry out by April 2013 an inventory of all of the equipment purchased so far under the project, and include in the 2013/14 Budget Framework Paper concrete plans and the needed financing to continue the project.

Table 1. Uganda: Proposed Quantitative Assessment Criteria for December 31, 2012 and March 13, 2013[1]

(Cumulative change from the beginning of the fiscal year, unless otherwise noted)

	December 31, 2012		March 2013[2]
	Program	Proposed	Proposed
		(Ush billions)	
Assessment criteria			
Ceiling on the increase in net domestic assets of the Bank of Uganda	265	470	887
Ceiling on the increase in net claims on the central government by the banking system	683	543	640
		(US$ millions)	
Ceiling on the stock of external payments arrears incurred by the public sector [3]	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturities greater than one year by the public sector [3, 4]	1,000	1,000	1,000
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [3 5]	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	83	42	30
Share of oil revenue placed in the Petroleum Fund	100	100	100
Indicative target		(Ush billions)	
Ceiling on the increase in base money liabilities of the Bank of Uganda [2]	318	535	559
Minimum expenditures under the Poverty Action Fund	700	1,092	1,690
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0	0	0
Memo items		(Percent)	
Upper band	12.0	9.2	9.2
Twelve-month consumer price inflation (percent)[6]	9.0	6.2	6.2
Lower band	6.0	3.2	3.2

[1] Defined in the technical memorandum of understanding (TMU).
[2] Indicative target.
[3] Continuous assessment criterion.
[4] Cumulative change from May, 2010. To be used exclusively for infrastructure investment projects.
[5] Excluding normal import-related credits.
[6] Annual end-of-period inflation.

Table 2. Structural Benchmarks under the PSI Arrangement		
Policy Measure	**Macroeconomic Rationale**	**Date**
Government to gazette and publish on the internet the names of beneficiaries (whether individual or corporation) of all tax expenditures.	Enforce discipline in issuance of tax exemptions.	October 1, 2012, for quarter ending June 30, 2012; January 1, 2013, for quarter ending September 30, 2012; and April 1, 2013, for quarter ending December 31, 2012.
Begin submitting to Cabinet regular quarterly reports on unpaid bills of nine Ministries based on data in the Commitment Control System (CCS) for the previous quarter of the fiscal year	To facilitate control and elimination of expenditure arrears.	As for measure immediately above.
Produce and disseminate within government a monthly index of economic activity relying on the various high-frequency indicators available	To facilitate the conduct of monetary policy.	As for measure immediately above.
BoU to include in Quarterly Report data on the net and gross positions of government in the BoU.	Enhance central bank independence and prepare Bank of Uganda to move toward inflation targeting.	As for measure immediately above.
Government to publish releases by MoFPED for power and water obligations of spending ministries, and actual payments by them, with sanctions to be applied to the named Accounting Officers of agencies that run arrears on these utilities.	Help control accumulation of arrears. Replaces benchmark on "straight-through payments".	As for measure immediately above.
Government to maintain transparency over the treatment of unspent budgetary funds at the end of the fiscal year by (i) publishing the balances as at December 31 and March 31 on all government accounts in the BoU and commercial banks, and (ii) in order to spend any balances held over from the previous year beyond end June, parliamentary approval as well as supporting work and procurement plans will be required.	To enhance budgetary discipline and promote fiscal transparency.	December 31, 2012 data to be published by January 31, 2013, and March 31, 2013date to be published by April 30, 2013. Continuous
Government will include in the Budget Framework Paper a status report of all ongoing PPP programs, including individual estimates of each project's contingent liability.	To enhance fiscal transparency.	March 31, 2013 (new benchmark)

Government will submit to cabinet a concept note, reflecting the decision to introduce a TSA.	To strengthen public financial management.	March 31, 2013 (new benchmark)
Government will submit to Cabinet a new tax procedure code.	To improve domestic revenue mobilization.	April 1, 2013

Annex: High Level Government Financial Management Reform Action Plan Matrix

Key Objective	Key Issue	Actions	Responsible Agency/Person	Timeline/Frequency
1. Effective Coordination and Communication of Reform Strategy	a) Coordination of Reform Strategy Implementation	Constitute Ministerial Committee to Coordinate Reform Strategy	Rt. Hon. Prime Minister	Nov 2012 - ongoing
	b) Regularly Communicate Reform Strategy	Disseminate Government Financial Management Reform Strategy	Office of the President – Media Centre	Nov 2012 - ongoing Review quarterly
	c) Improving GoU/ development partner's dialogue	Meetings with PM, Head of Public Service, MoFPED and development partners to review progress of action plan	Rt. Hon. Prime Minister	Review quarterly from Dec. 2012 until Key Results have been achieved
		Reinvigorate GoU anti-corruption working group (involving CID, DPP, IGG, Judiciary, JLOS and MoFPED)	Minister of Ethics and Integrity	Jan. 2013 until Key Results have been achieved, then quarterly
2. Repayment and Recovery of Public Funds lost through Fraudulent Acts of Public Officials	a) Application of Administrative Measures	Interdict all public officials involved in mismanagement, fraud and corruption	Rt. Hon. Prime Minister	Nov 2012 – Mar 2013
		KEY RESULT 1: Provide from Dec. 2012 monthly written updates on specific satisfactory administrative sanctions taken against each BoU, MoFPED and OPM official named in the AG's report into financial impropriety at OPM	**Rt. Hon. Prime Minister**	**Assessment by Feb. 2013**
	b) Seek Legal Remedies	Request IGG and CID to compare asset declarations and asset inventories for those named in the OPM PRDP case.	Rt. Hon. Prime Minister	Dec 2012 / Jan 2013

Key Objective	Key Issue	Actions	Responsible Agency/Person	Timeline/Frequency
		Written confirmation of freeze of assets of named individuals in the OPM PRDP case in accordance with the laws of Uganda	Rt. Hon. Prime Minister	Dec 2012 / Jan 2013
		Investigate interdicted public officers for fraud and corruption	1. Inspectorate of Government 2. Uganda Police Force Criminal Investigation Department 3. Office of the Auditor General	Nov 2012 – Jun 2013
		Prosecute all public officials indicted for fraud and corruption	1. Inspector General of Government 2. Director of Public Prosecutions	Nov 2012 – Nov 2013
		Investigate and Prosecute all private persons and firms involved in fraud and corruption	1. Inspector General of Government 2. Director of Public Prosecutions	Nov 2012 – Mar 2013
		KEY RESULT 2: Satisfactory progress on investigations and prosecutions of indicted public officials, private persons and firms for fraud and corruption in the OPM case[1]	**1. Police/CIID** **2. DPP**	**Assessment by Feb. 2013**
	c) Recover Funds through actions provided for legally	Enforcement of 'Special Powers of Inspectorate' provisions of the Inspectorate of Government Act to recover lost public funds from public officials and other persons.	Inspector General of Government	Nov 2012 – Jun 2014
		Establish Collection Account in Commercial Bank for banking recoveries from fraudulent public officials and private parties	Ministry of Finance	Nov 2012

[1] The number will be determined by Joint Assessment on the number of cases opened, investigated and prosecuted

Key Objective	Key Issue	Actions	Responsible Agency/Person	Timeline/Frequency
		Commence recovery of misappropriated funds		June 2013
	d) Repayment of misappropriated funds	**KEY RESULT 3: Satisfactory agreements established on amount, timing and methodology of repayment of all misappropriated funds[2] with Denmark, Ireland, Norway, Sweden and the UK**	**Ministry of Finance**	**Assessment by Feb. 2013**
3. Provide assurance of the Fidelity of Government Financial Management Systems	a) Government –Wide Forensic Audit	Undertake Forensic Audit of Financial Management Systems at:- i. Ministry of Finance (main) ii. Treasury iii. Internal Audit iv. Bank of Uganda	Office of the Auditor General	Nov 2012 – Feb 2013
		Undertake Sector Forensic Audits of Major Public Expenditure Heads namely:- i. Energy ii. Roads and Works iii. Education iv. Health v. Agriculture. vi. Justice vii. Ministry of Local Government viii. Water	Office of the Auditor General	Jan 2013-June 2013

[2] This covers funds identified in the OPMPRDP case by the Auditor General and other relevant information. Government of Uganda needs to establish agreements with the individual Development Partners in line with existing bilateral agreements.

Key Objective	Key Issue	Actions	Responsible Agency/Person	Timeline/Frequency
		Address all Actions specified in Budget Monitoring, Internal and External Audit Reports	Permanent Secretary/Secretary to the Treasury	Nov 2012 – Jun 2013
	b) Strengthen Procedures for Management of Public Funds	Undertake Review of entire Public Financial Management process	Ministry of Finance	Nov 2012 – Feb 2013
		List of and written confirmation that all dormant accounts in BoU have been reviewed by Accountant General and closed	Permanent Secretary/Secretary to the Treasury	Dec 2012
		Accountant General to report to DPs on all transfers between budget support donor holding accounts and consolidated fund over the last 10 financial years	Accountant General	Dec 2012
		Establish action plan for the implementation of a Treasury Single Account for MDAs subject to laws of Uganda	Accountant General	Jan 2013
		KEY RESULT 4: Implementation of key recommendations of previous IFMS/IT security audits and fix known weaknesses detected by the OAG, and recruitment of security consultant for IFMS is finalised	**Permanent Secretary/Secretary to the Treasury**	**Assessment by Feb. 2013**
		Implement immediate rotation of Public Financial Management officials including Accounting Officers, Accountants, Internal Audit, and Procurement staff	1. Office of the President 2. Ministry of Finance 3. Ministry of Local Government	Nov 2012 – Mar 2013
		Provide annual report by Accountant General to the PS/ST on the periodic rotation of Accountants, Internal	Accountant General	Nov 2013

Key Objective	Key Issue	Actions	Responsible Agency/Person	Timeline/Frequency
		Audit, and Procurement staff, audited by the Auditor General		
		KEY RESULT 5: Submit for consideration by relevant Committee of Parliament proposed amendments to the Public Finance Bill that include provisions on (i) oil revenue management, in line with international best practice, (ii) a strengthened system of sanctions for breach of PFM regulations, (iii) commitment controls, and (iv) legal creation of an independent directorate of internal audit.	Ministry of Finance	**Assessment by Feb. 2013**
		KEY RESULT 6: Complete migration and fully operationalize the recruitment, payroll and pension modules processing on Integrated Payroll and Pension System (IPPS) including interface with IFMS.	**Ministry of Public Service**	**Assessment by Feb. 2013**
		Engage RDCs, ISO staff to monitor and report on service delivery against funds released up to sub-county level	1. Office of the President 2. Internal Security Organisation	Nov 2012 – on going
		Complete report on pilot Baraza Initiative	Office of the Prime Minister	Nov 2012
		Institute Barazas at Sub-County levels	1. Office of the President 2. Office of the Prime Minister	Jul 2013 – on going on a rotational quarterly basis

Key Objective	Key Issue	Actions	Responsible Agency/Person	Timeline/Frequency
4. Strengthen anti-corruption institutions and legislation	a) Strengthened IGG, DPP and CID	**KEY RESULT 7: Fully constitute the Inspectorate of Government by appointing the 2nd Deputy IGG and a firm commitment for the timely replacement of the 1st Deputy.**	**H.E. The President**	**Assessment by Feb. 2013**
		Increase Budget allocations to IGG, DPP and CID to reduce the current backlog	Ministry of Finance	Sep 2013
		The Leadership Code Tribunal is established and functional	IGG	Nov 2013
	b) Improved anti-corruption laws and regulations	Anti-money laundering legislation is introduced in Parliament with amendments to cover asset recovery and the establishment of a financial intelligence unit.	Ministry of Finance	Apr 2013
		Witness Protection Laws and Whistleblower regulations are tabled in parliament	IGG	Nov 2013
		Leadership Code Tribunal Bill is tabled in parliament	IGG	Apr 2013
5. Budget Management to achieve overall Economic Objectives for FY 2012/13 and the Medium Term	a) Maintenance of Expenditures to Key Growth Areas especially in Development Budget	Prepare Budget Outlay for FY 2012/13 Q3 and Q4 ensuring Development Expenditures are maintained	Ministry of Finance	Nov – Dec 2012
		Review Medium Term Budget Outlook FY 2013 - 17	Ministry of Finance	Nov 2012 - Mar 2013
	b) Improvement of efficiency of public expenditure	Strengthen alignment of budget with strategic objectives (National Development Plan)	Ministry of Finance	Nov 2012 - Mar 2013
		Revise Medium Term Expenditure Frameworks (MTEFs)	Ministry of Finance	Nov 2012 - Mar 2013

Attachment II. Technical Memorandum of Understanding

Introduction

1. This memorandum defines the quarterly assessment criteria and indicative targets described in the memorandum of economic and financial policies (MEFP) for the financial program supported by the IMF Policy Support Instrument (PSI) over the period of June 30, 2012—March 31, 2013, and sets forth the reporting requirements under the instrument.

Ceiling on the Cumulative Increase in Net Domestic Assets (NDA) of the Bank of Uganda (BoU)

2. Net foreign assets (NFA) of the BOU are defined as the monthly average (based on daily data) of foreign assets minus foreign liabilities, and include all foreign claims and liabilities of the central bank, excluding oil revenues in the petroleum fund. The monthly average values of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the average cross exchange rates referred to in the table below for the various currencies and then converted into Uganda shillings using the program average U.S. dollar-Uganda shilling exchange rate for September, 2012.

Program Exchange Rates	
US Dollar (US$)	1.0
British pound/US$	0.6
Japanses Yen/US$	78.2
SDR/US$	0.7
Kenyan Shililngs/US$	82.9
Tanzania Shillings/US$	1576.0
Euro/US$	0.8
Ugandan Shillings/US$	2515.9

3. Net domestic assets (NDA) of the BoU are defined as the monthly average (based on daily data) of base money (defined below) less net foreign assets of the BoU (as defined in paragraph 2). Based on this definition, the NDA limit for December 2012 will be a ceiling on the cumulative change from the monthly average based on daily data for June 2012 to the same monthly average for December 2012. The NDA limits for December 2012, and March 2013 will be ceilings on the cumulative change from the monthly average based on daily data for June 2012 to the same monthly averages for December 2012, and March 2013, respectively. The NDA limit for December 2012 will be a quantitative assessment criterion under the PSI-supported program; and the limit for March 2013 will be an Indicative target.

Base Money

4. Base money is defined as the sum of currency issued by the BoU and the commercial banks' deposits in the BoU. The commercial bank deposits include the statutory required reserves and excess reserves held at the BoU and are net of the deposits of closed banks at the BoU and Development Finance Funds (DFF) contributed by commercial banks held at the BoU. The base money limit for December 2012 will be a ceiling on the cumulative change from the monthly average based on daily data for June 2012 to the same monthly average for December 2012. The base money limits for December 2012 and March 2013 will be ceilings on the cumulative change from the monthly average based on daily data for December 2012 to the same monthly averages for December 2012 and March 2013, respectively. Base money limits for December 2012 and March 2013 will be indicative targets under the PSI-supported program.

Ceiling on the Cumulative Increase in Net Claims on the Central Government by the Banking System[1]

5. Net claims on the central government (NCG) by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding oil revenues in the petroleum fund and deposits in administered accounts and project accounts with the banking system, including the central bank. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes. Central government's deposits with the banking system include the full amount of resources freed by the IMF MDRI. NCG by the banking system will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey.

Floor on Net International Reserves of the Bank of Uganda

6. Net international reserves (NIR) of the BoU are defined for program monitoring purpose as reserve assets of the BoU net of short-term external liabilities of the BoU. Reserve assets are defined as external assets readily available to, and controlled by, the BoU and exclude pledged or otherwise encumbered external assets, including, but not limited to, assets used as collateral or guarantees for third-party liabilities. Short-term external liabilities are defined as liabilities to nonresidents, of original maturities less than one year, contracted by the BoU and include outstanding IMF purchases and loans.

7. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock from their original currency denomination at program exchange rates (as specified in paragraph 2). The NIR limit for December 2012 will be a floor on the change of the NIR stock from June 2012 to December 2012. The NIR limits for December 2012 and March 2013 will be floors on the change of the NIR

[1] The central government comprises the treasury and line ministries.

stock from June 2012 to December 2012, and March 2013, respectively. The NIR limit for December 2012 will be quantitative assessment criteria under the PSI-supported program; the floor for March 2013 will be an indicative target.

Ceiling on the Stock of Domestic Budgetary Arrears of the Central Government

8. The stock of domestic payment arrears/unpaid payment claims will be monitored on a quarterly basis. Domestic payments arrears/unpaid payment claims under the CCS are defined as the sum of all bills that have been received by a central government spending unit or line ministry delivered prior to the end of the quarter in question, and for which payment has not been made, under the recurrent expenditure budget (excluding court awards and pensions) or the development expenditure budget. For the purpose of program monitoring, the reports on domestic payment arrears/unpaid payment claims prepared by the Auditor General will be used to monitor this item following the end of the fiscal year. In the interim, the reports prepared by the Accountant General on unpaid claims will be monitored to gauge expenditure pressures.

Expenditures under the Poverty Action Fund (PAF)

9. The indicative target on expenditures under the Poverty Action Fund is designed to ensure that resources freed by debt relief are used for additional PAF expenditures. Compliance with the indicative floor for PAF expenditures will be verified on the basis of releases (PAF resources made available to spending agencies).

Ceiling on Issuance of Guarantees by the Government or Bank of Uganda

10. The indicative target on issuance of guarantees by the Government or Bank of Uganda aims to prevent accumulation of contingent liabilities by the Government (including Government entities such as ministries, agencies and authorities). Included against the ceiling are any direct, contingent liabilities of Government (including entities that are part of government such as ministries, agencies and authorities) issued after June 30, 2012, and including any guarantees issued prior to July 1, 2012 but which are extended after June 30, 2012. This excludes guarantee programs which have explicit budget appropriations.

Share of Oil Revenue Placed in Petroleum Fund

11. The purpose of this assessment criterion is to avoid a situation whereby petroleum revenues bypass the Ugandan budget framework. A petroleum fund will be created upon passage of the revised Public Finance Act; in the meantime, government has established a petroleum revenue account in the Bank of Uganda. This QAC will be deemed satisfied if 100 percent of petroleum revenues are transferred to this account upon collection by URA. These resources may then be spent or saved as governed by the organic budget law in force at the time (PFAA 2003 until the new PFA is enacted).

Consumer Price Inflation

12. Inflation is measured by the headline twelve-month rate of annual end-of-period CPI inflation published by the Uganda Bureau of Statistics (UBOS). Quarterly bands denoting the target range are specified in Table 1.

Adjusters

13. The NDA and NIR targets are based on program assumptions regarding budget support, assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), external debt-service payments.

14. The NCG target for the banking system, in addition to being based on the aforementioned assumptions, is also based on assumptions regarding domestic nonbank financing of central government fiscal operations. In addition, the NDA target depends on the legal reserve requirements on deposits in commercial banks. Finally, the NDA and NIR targets are based on program assumptions regarding automatic access by commercial banks to the BOU's rediscount and discount window facilities.

15. The Uganda shilling equivalent of projected budget support (grants and loans) plus HIPC Initiative assistance in the form of grants on a cumulative basis from July 1 of the relevant fiscal year is presented under Schedule A. The ceilings on the cumulative increase in NDA and NCG for the banking system will be adjusted downward (upward), and the floor on the cumulative increase in NIR of the BoU will be adjusted upward (downward) by the amount by which budget support, grants and loans, plus HIPC Initiative and MDRI assistance, exceeds (falls short of) the projected amounts.

Schedule A: Budget Support (Including HIPC and MDRI)
(Ush billions)

	Sep-12	Dec-12	Mar-13
Cumulative change from July 1, 2012	165	209	261

16. The ceiling on the increases in NDA and NCG of the banking system will be adjusted downward (upward) and the floor on the increase in NIR will be adjusted upward (downward) by the amount by which debt service due[1] plus payments of external debt arrears less deferred payments (exceptional financing) falls short of (exceeds) the projections presented in Schedule B. Deferred payments are defined to be (i) all debt service rescheduled under the HIPC Initiative;

[1] Debt service due is defined as pre-HIPC Initiative debt service due, excluding debt service subject to HIPC Initiative debt rescheduling.

and (ii) payments falling due to all non-HIPC Initiative creditors that are not currently being serviced by the authorities (that is, gross new arrears being incurred).

Schedule B: External Debt Service
(Ush billions)

	Sep-12	Dec-12	Mar-13
Cumulative change from July 1, 2012	89	187	285

17. The ceiling on increases in NCG of the banking system will be adjusted downward (upward) by any excess (shortfall) in nonbank financing, relative to the programmed cumulative amounts in Schedule C. Non-bank financing will include any domestic debt—either in domestic currency or foreign currency— of the Government of Uganda that is held by creditors—whether resident or nonresident[2]—that is not included in the Ugandan banking system. It will include the change in government securities held by the nonbank sector as reported in the monetary survey, as calculated by data provided by the Central Depository System (CDS), plus any other claims on government, including entities of government (ministries, agencies, authorities, etc.), held outside the banking system, including those which might be held by the National Social Security Fund (NSSF).

Schedule C: Non-bank Financing
(Ush billions)

	Sep-12	Dec-12	Mar-13
Cumulative change from July 1, 2012	-148	-52	268

18. The floor on the cumulative increase in NIR of the BOU will be adjusted downward by the amount by which foreign exchange expenditures on the Karuma hydropower project exceeds the projected amounts as set out in Schedule D. The ceiling on NDA will be adjusted upward (downward) by the amount by which the domestic currency equivalent of Karuma spending (using the annual program exchange rate) exceeds (falls short of) the projected amounts as set out in Schedule D. The ceiling on NCG will be adjusted upward (downward) by the amount by which the domestic currency equivalent of Karuma spending (using the market exchange rate) exceeds (falls short of) the projected amounts as set out in Schedule D.

[2] Non-residents holding government securities are excluded from the definition of external debt in paragraph 20.

Schedule D: Expenditures for Karuma Hydropower Project
(US$ millions)

	Sep-12	Dec-12	Mar-13
Cumulative change from July 1, 2012	0	0	84

19. The floor on the cumulative increase in NIR of the BOU will be adjusted downward by the amount by which inflows into the Petroleum Fund falls short of the projected amounts as set out in Schedule E. The ceiling on NDA will be adjusted upward (downward) by the amount by which the domestic currency equivalent of Karuma spending (using the annual program exchange rate) falls short of (exceeds) the projected amounts as set out in Schedule E. The ceiling on NCG will be adjusted upward (downward) by the amount by which the domestic currency equivalent of Karuma spending (using the market exchange rate) falls short of (exceeds) the projected amounts as set out in Schedule D.

Schedule E: Inflows into Petroleum Fund
(US$ millions)

	Sep-12	Dec-12	Mar-13
Cumulative change from July 1, 2012	0	0	0

20. The ceiling on NDA of the BoU for every test date will be adjusted upward by the daily average amount of commercial bank automatic access to the BoU discount window and re-discounting of government securities by commercial banks.

21. The ceiling on NDA of the BoU for every test date will be adjusted downward/upward to reflect decreases/increases in the legal reserve requirements on deposits in commercial banks. The adjuster will be calculated as the percent changes in the reserve requirement multiplied by the actual amount of required reserves (Uganda shillings and foreign-currency denominated) at the end of the previous calendar month.

Ceiling on the Contracting or Guaranteeing of New Nonconcessional External Debt by the Public Sector, and Ceiling on the Stock of External Payments Arrears Incurred by the Public Sector[3]

22. The assessment criterion on short-term debt refers to contracting or guaranteeing external debt with original maturity of one year or less by the public sector. Excluded from this assessment criterion are normal import-related credits and non-resident holdings of government securities and government promissory notes. The definition of "debt" is set out in paragraph 24.

23. The program includes a ceiling on new nonconcessional borrowing with maturities greater than one year contracted or guaranteed by the public sector.[4] For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[5] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation and Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).The ceiling on nonconcessional external borrowing or guarantees is to be observed on a continuous basis. The coverage of borrowing includes financial leases and other instruments giving rise to external liabilities, not only current as defined below, but also contingent, on nonconcessional terms. External debt for the purpose of this assessment criterion means borrowing giving rise to liabilities to non-residents. Excluded from the limits are changes in indebtedness resulting from non-resident holdings of government securities and government promissory notes, refinancing credits and rescheduling operations, and credits extended by the IMF. For the purposes of the program, arrangements to pay over time obligations arising from judicial awards to external creditors that have not participated in the HIPC Initiative do not constitute nonconcessional external borrowing. Excluded from these limits are also nonconcessional borrowing within the

[3] Public sector comprises the general government (which includes the central government, local governments, and monetary authorities), and entities that are public corporations which are subject to 'control by the government', defined as the ability to determine general corporate policy or by at least 50 percent government ownership.

[4] Contracting and guaranteeing is defined as approval by a resolution of Parliament as required in Section 20(3) and 25(3) of the Public Finance and Accountability Act, 2003

[5] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. The most recent version of the Fund's concessionality calculator available in http://www.imf.org/external/np/pdr/conc/calculator/ will be used to calculate loan-by-loan concessionality.

limits specified in Table 1 of the MEFP. The ceiling also excludes nonconcessional borrowing by one state-owned bank, Housing Finance Bank, which poses limited fiscal risk and is in a position to borrow without a government guarantee.

24. The definition of debt, for the purposes of the limit, is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 6230-(79/140), as amended by Decision No 14416-(09/91, effective December 1, 2009). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

> (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
> (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

25. The ceiling on the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted or guaranteed by the public sector from their level at end-June 2006. External debt payment arrears consist of external debt service obligations (reported by the Statistics Department of the BOU, the Macro Department of the Ministry of Finance) that have not been paid at the time they are due as specified in the contractual agreements but shall exclude arrears on obligations subject to rescheduling.

Monitoring and Reporting Requirements

26. The Government of Uganda will submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The quality and timeliness of the data submission will be tracked and reported by IMF staff. The information should be mailed electronically to AFRUGA@IMF.ORG.

Attachment II. Table 1. Summary of Reporting Requirements

Reporting institution	Report/Table	Submission Frequency	Submission lag
I. Bank of Uganda	Issuance of government securities, repurchase operations and reverse repurchase operations	Weekly	5 working days
	Operations in the foreign exchange	Weekly	5 working days
	Interest rates (7 day interbank, commercial bank prime lending rate, government securities)	Weekly	5 working days
	Private sector credit growth by shilling and forex, and excess reserves of commercial banks	Weekly	5 working days
	Disaggregated consumer price index.	Monthly	2 weeks
	Balance sheet of the BOU, consolidated accounts of the commercial banks, and monetary survey.	Monthly	4 weeks
	Daily balances of net foreign assets, net domestic assets, and base money of the BoU (as defined in paragraphs 2, 3, and 4)	Monthly	4 weeks
	Monthly foreign exchange cash flow table of BOU.	quarterly	4 weeks
	Statement of (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.	Quarterly	6 weeks

Attachment II. Table 1. Summary of Reporting Requirements			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission lag**
	Summary of (i) monthly commodity and direction of trade statistics; (ii) disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category; and (iii) composition of nominal HIPC Initiative assistance.	Quarterly	6 weeks
	Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	Quarterly	6 weeks
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks
	Summary table of preliminary program performance comparing actual outcome with adjusted program targets for (i) base money; (ii) net claims on central government by the banking system; ((iv) new nonconcessional external borrowing; and (v) net international reserves	Quarterly	6 weeks