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Uganda and the IMF

Press Release:
IMF Concludes Mission to Uganda on the Second Review of the Policy Support Instrument
May 13, 2014

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

June 10, 2014

The following item is a Letter of Intent of the government of Uganda, which describes the policies that Uganda intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Uganda, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

Kampala, Uganda,
June 10, 2014

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

Dear Ms. Lagarde:

On behalf of the Government of Uganda, we 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). Economic growth has been resilient despite the adverse impact of a drought and the ongoing regional conflict on agricultural production, trade, and remittances. In the context of our inflation targeting framework, we have successfully kept inflation under control despite a significant food price shock. On account of a benign current account outlook and strong capital inflows, we have maintained our international reserves at healthy levels.

Under the PSI-supported program, we observed all December 2013 quantitative assessment criteria (QAC) except for the increase in government net domestic financing (missed by a small margin). The indicative target on tax revenue was unfortunately missed. We met some of our key structural benchmarks; however, timely completion of other benchmarks proved challenging, and we request postponing their implementation. We are committed to implementing corrective measures to address shortfalls, notably on the tax revenue side. Moreover, we have also taken remedial action and remain committed to speeding up the implementation of the structural reform agenda. These and other details of our policy program are set out in the attached Memorandum of Economic and Financial Policies (MEFP), which extends our commitments to end-June 2015.

In light of this performance and our continued commitment to the program, we request completion of the second review under our PSI-supported program, based on corrective measures being taken on the revenue and expenditure fronts. On account of our strong reserve build-up, partly due to a postponement in implementation of the Karuma and Isimba hydropower projects, we are formally requesting an increase in the end-June 2014 QAC on net international reserves of Bank of Uganda (BoU). We also request modification of the June 2014 quantitative assessment criteria and indicative targets in line with recent developments.

Going forward, we will continue to conduct policies that maintain economic stability and support sustainable and inclusive growth by generating employment and reducing poverty levels. Monetary policy is designed to support the 5 percent medium-term core inflation target. A program of infrastructure investment in electricity and road projects to address the infrastructure gap is at the center of our growth and development strategy, and we will ensure that this program is consistent with debt sustainability and the absorption capacity of the economy. We are also advancing integration efforts with other Eastern African countries, set to ultimately culminate in a monetary union, to boost trade and improve competiveness. We have made significant progress on enhancing public financial management and will continue to take steps to advance further. To assist us in carrying out this ambitious reform agenda, the government of Uganda wishes to continue to benefit from technical assistance from the IMF in areas included in the program.

Government believes that the policies set out in the attached MEFP will be 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 intend to work with the IMF and other development partners on 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. We will provide the IMF with such information as the Fund requests in connection with our progress implementing the policies and reaching the objectives of the program. We also consent to publication of the documents for the second review under the PSI.

Sincerely yours

/S/

Maria Kiwanuka
Minister of Finance, Planning
and Economic Development

/S/

Prof. E. Tumusiime Mutebile
Governor
Bank of Uganda

Attachments
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

A. Introduction

1. This Memorandum of Economic and Financial Policies complements the previously agreed policies under the June and December 2013 Memoranda of Economic and Financial Policies. It presents an update on the economic performance in the first half of FY2013/14, and provides details of the policies Government intends to implement over the period ahead to preserve fiscal sustainability and achieve Uganda's macroeconomic objectives. The memorandum proposes extension of quantitative targets, structural benchmarks, and other reform commitments to end-December 2014, and setting of indicative targets for March and June 2015.

B. Recent Economic and Policy Developments

2. Economic growth has slowed, mainly reflecting a drought-related decline in agricultural output and the adverse impact of the regional conflict. We expect growth of 5¾ percent in FY2013/14, somewhat lower than anticipated under the program. In the context of the inflation targeting framework, our vigilant monetary policy stance has been successful in maintaining inflation under control and safely within the PSI consultation clause.

3. Despite a decline in exports and remittances, the current account deficit is expected to be sharply lower than projected under the program, mainly reflecting lower imports resulting from a delay in the implementation of the Karuma and Isimba hydroelectric projects, but also due to a contraction in oil imports. The projects were delayed because of longer-than-anticipated negotiations with the contractor and financier, but we are now ready for a successful start. Oil import savings are attributed to reduced reliance on thermal power plants now that the Bujagaali hydropower plant is in full operation. The current account deficit is expected to continue to be financed by loans, FDI and other inflows, and will keep our international reserve coverage at 4.2 months of imports, a level considered adequate for Uganda.

4. Fiscal performance has been more expansionary than expected. Notwithstanding our commitment to raise revenue, a significant shortfall has emerged. Weak VAT collections and lower corporate income tax returns by key taxpayers, including banks and telecommunication companies, partly attributed to lower economic activity, explained the shortfall. Our improvements in tax compliance and enforcement also fell short of expectations. Moreover, we had to seek approval of supplementary budgets mainly to support issuance of national IDs (already included in the PSI) to comply with the EAC directive and security related spending.

5. Consequently, the overall deficit (excluding the Karuma and Isimba projects) is expected to widen by about 1.2 percent of GDP compared to the program this fiscal year, despite our efforts to strengthen tax administration and to limit spending to essential outlays in the last quarter of the year. The fiscal deficit expansion is a matter of serious concern for us, as it led to an unplanned increase in issuance of government securities in the domestic market, now expected to exceed by about Shs680 billion the level envisaged in the program.

6. The monetary policy stance remained cautious because of upside risks to inflation. Despite low core inflation, economic activity below capacity, and still sluggish credit growth, the Bank of Uganda kept the central bank rate at 11.5 percent since December until May to achieve the 5 percent inflation target, and lowered it to 11 percent only in June.

7. While the banking system remained profitable, the quality of assets deteriorated reflecting the lagged effect of the economic slowdown in FY2011/12. Nevertheless, the banking sector remains well capitalized and able to absorb losses. Our supervisory efforts focused on more stringent supervision of banks due to a decline in asset quality.

C. Performance Under the PSI

8. As of end-December 2013, we successfully observed the quantitative assessment criteria (QAC) on inflation and net international reserves as well as indicative targets on base money and social spending. However, we missed the QAC on government net domestic financing by a small percentage and the indicative target on tax revenue. We unfortunately did not produce the arrears report for end-December, because of capacity constraints, but the end-March arrears indicative target was met and we have taken action to generate regular reports in future.

9. Significant progress has been made on achieving the structural benchmarks. The rollout of the payroll system, expansion of the IFMS treasury system, and start of the Treasury Single Account (TSA) were all met. The VAT-gap analysis was concluded and published with a slight delay. The FY2014/15 budget framework paper includes an appropriation to recapitalize the Bank of Uganda for the second time, and an analysis of PPP programs will be submitted to Parliament with the budget document. The issuance of cards under the new national identification system was not completed but good progress has been made.

D. Macroeconomic Outlook

10. We expect that growth would accelerate from 5¾ percent in FY2013/14 to 6¼ percent in FY2014/15, supported by scaling up of public investment in infrastructure (particularly roads and energy) and a recovery in exports. Fiscal consolidation, excluding the spending related to Karuma and Isimba, would create space for higher private sector credit growth. Core inflation is expected to remain broadly stable at 5¾ percent in FY2014/15 on account of a stable exchange rate and the reversal of the drought-related spike in food prices in FY2013/14. The current account balance will widen from 9¾ percent of GDP this year to 11¼ percent of GDP in FY2014/15, mainly reflecting imports for the large projects. On account of strong external inflows we project to keep reserves at a comfortable level of 4 months of imports despite the expected withdrawal of government deposits from the energy and petroleum funds to finance Uganda’s share of the hydropower projects.

E. Economic Policies

Fiscal Policy

11. Government is undertaking corrective measures to bring the fiscal position, which deteriorated in FY2013/14, back on track. In FY2013/14 we have identified unused balances that will produce savings of Shs100 billion and enhanced revenue mobilization that will yield an additional Shs20 billion helping to contain the fiscal deficit this year. Despite these efforts, the fiscal deficit was too large to be financed by the planned issuance of Shs1.7 trillion in domestic debt. Rather than issue debt beyond this level, we chose to reduce the planned savings at the Bank of Uganda by Shs90 billion.

12. Initial difficulties related to the Karuma and Isimba projects have been overcome and spending should now proceed at a fast pace. Compensation payments to landowners—an important milestone for the project—commenced in the last quarter of FY2013/14. Looking ahead, the objective is to complete these projects by FY2018/19 allowing us to address a major infrastructure gap.

13. In accordance with the Memorandum of Understanding between Government and the Bank of Uganda (BOU), we will gradually complete the recapitalization of the BOU with marketable securities over the medium term. Following the recapitalization payment of Shs410 billion in May 2013, further payments are expected to be Shs250 billion for FY2014/15, Shs200 billion for FY2015/16, and Shs350 billion for FY2016/17.

14. We intend to significantly reduce the FY2014/15 deficit—excluding expenses related to Karuma and Isimba and the recapitalization of the BoU. For this purpose, we are strengthening tax administration, proposing to parliament important tax measures and establishing a contingency reserve in the budget. The budget presented to Parliament on June 12 contains a package of measures yielding Shs551 billion to increase tax collections by Shs1.5 trillion (an increase in the tax-to-GDP ratio of 0.5 percentage points). It will also contain an expenditure envelope that is only Shs842 billion larger than in FY2013/14, resulting in a decline of the spending-to-GDP ratio, net of the large hydroelectric projects and recapitalization of BOU, of 0.6 percent of GDP.

15. The program is designed on the assumption that financing of the deficit will restrict withdrawals from the Energy and Petroleum Funds solely to co-financing Karuma and Isimba projects with China Eximbank (Government's share amounting to US$424 million) in FY2014/15 due to macroeconomic considerations, including the impact on domestic demand and liquidity management. We are committed to maintaining this principle. In the medium term we will allocate the remaining resources in the petroleum fund only to key infrastructure projects, taking into consideration the need to preserve macroeconomic stability and debt sustainability.

16. On the revenue side, we will implement a comprehensive package of measures attached in Annex I. These measures will eliminate a large number of VAT exemptions that include exemptions on the supply of new computers, desktop printers, computer parts and accessories, and on bank charges. We will also remove several items from the zero-rated VAT list, including processed milk

and milk products. Corporate income taxes will now be charged on several activities, including initial allowances on eligible property, interest earned by banks on loans to the agricultural sector, and educational institutions. Excise duties will be increased on fuel, sugar and money transfers.

17. We request removing from the PSI the structural benchmark related to the government's intention to eliminate the tax exemption on income derived from agro-processing, as on further reflection we believe that this exemption encourages production in the sector. Instead, we are committed to eliminating exemptions on supply of specialized vehicles, plant and machinery, feasibility studies, engineering designs, consultancy services and civil works related to hydro-electric power, roads and bridges (structural benchmark). Moreover we will eliminate the existing tax exemption on interest on loans granted for the purpose of agriculture including farming, forestry, fish farming, bee keeping, animal husbandry or similar operations (structural benchmark).

18. Government is committed to phasing out taxpayer-specific exemptions in order to increase fairness in the tax system while at the same time preserving the rule of law regarding existing contracts. Any tax exemptions that expire will not be renewed. We will endeavor to renegotiate existing contracts, where possible, with the objective of reducing the exempted period.

19. The VAT gap analysis was completed with technical assistance of the IMF to quantify the revenues foregone because of policy and compliance reasons. The findings of this analysis have been published on the websites of the Uganda Revenue Authority and the Ministry of Finance, and an action plan has been developed to improve tax administration and compliance in line with its recommendations. The plan aims at taking action to collaborate with public agencies and the private sector to enhance tax collection by enhancing income tax management, including rental income and international taxation, and conducting several customs initiatives. The tax administration agency will register, assess, and collect revenues in collaboration with local governments in at least 3 municipalities (structural benchmark). The tax administration agency will also conduct 6 document reviews and conclude 2 international tax audits by December 2014 and another 6 document reviews and 2 international tax audits by June 2015.

20. The pace of spending in FY2014/15 is expected to be significantly slower than in previous years, as we intend to lower the domestic borrowing requirements while maintaining the necessary space for infrastructure investment. Other investments and current spending, aside from wages and interest payments, will grow by 2.8% compared to 8.7% for total spending. Salary payments to teachers and other lowest paid public servants, which were kept constant in the last two years, will be increased to compensate for past inflation. Salary increases and interest payments on debt are the two largest components in the increase in spending.

21. Macroeconomic stability has been key to Uganda's economic recovery over the last three decades. The unraveling of the macroeconomic environment in FY2011/12 and the fiscal slippage observed in FY2013/14 suggest that the economy remains vulnerable to fiscal shocks. To address this risk we are committed to formulating a charter of fiscal responsibility by May 2015, once the Public Financial Management Bill that allows its formulation is approved (structural benchmark). The charter will set the objectives and principles for fiscal policy. In the interim, we will (i) align the budget to the PSI-supported program; (ii) accommodate any negative shocks on domestic

revenues by reductions in expenditures; (iii) finance any additional expenditure by virements within the approved budget of the government entity. We remain committed to macroeconomic stability and to this extent we shall ensure that fiscal policy and debt management are aligned to our macroeconomic objectives as set out in the PSI program.

22. In line with the Public Financial Management Bill currently before Parliament, we have also included a contingency reserve in the FY2014/15 budget. This will improve our budget credibility. This contingency reserve will be used for the following purposes in order of importance 1) compensating for revenue shortfalls that could not be accommodated with spending cuts (revenue projections will be reviewed before the start of every quarter for this purpose); 2) overruns in fixed costs, such as salaries, pension obligations, and utility bills, that if not executed would lead to arrears (also to be carefully reviewed at the start of each quarter), and 3) expenses that are deemed critically necessary but that were unexpected at the time of budget formulation and could not be accommodated through reallocations within the budget. To make this possible, release of the contingency funds and corresponding financing would not occur unless there is clear justification for it and it is approved by the Minister of Finance. In order to preserve the importance of the consultative process that underlies the budget, no vote will use more than 10% of the contingency reserve without approval by Parliament. Unspent balances in the contingency reserve will result in lower amounts of domestic debt issuance and repayment of arrears. The implementation of a contingency reserve will help us achieve our objective of eliminating the use of supplementary budgets.

23. We have streamlined institutional arrangements to deal with reporting mechanisms for arrears. In FY2014/15 a provision of Shs80 billion has been made in the budget, but going forward a strategy to deal with the elimination of arrears will be published by end of June 2014. We will be publishing the stock of unpaid bills by all government entities on a quarterly basis within 6 weeks of the end of the quarter. We will also publish the stock of domestic arrears of all government entities at end-June 2014 by September 30, 2014 (structural benchmarks). We attach to this memorandum the understandings reached with the IMF on management of arrears (Annex II).

24. Issuance of domestic debt in the market will be capped at Shs1.4 trillion which includes a contingency reserve of Shs200 billion. Deposits in the BoU will increase by Shs138 billion. Any issuance of debt above Shs1.4 billion or an accumulation of deposits lower than Shs138 billion would be inconsistent with the PSI program because it will lead to nonobservance of the government net domestic financing ceiling.

Monetary and Financial Policies

25. Consistent with the inflation targeting framework, monetary policy will continue to center on achieving the 5 percent medium-term inflation target by using the central bank rate to adequately signal its stance. The BoU will stand ready to adapt its policies to changing domestic and external developments.

26. The BoU will also adapt the announced daily purchases of foreign exchange to evolving conditions, with a view to maintaining international reserves at adequate levels. It is committed to

fully sterilize these purchases. Intervention will continue to be limited to contain excessive exchange rate volatility.

27. The BoU is closely monitoring financial sector developments to ensure banks are well capitalized and the system is stable. The BoU constantly ensures that banks adequately provide for nonperforming loans and use strong risk management practices, while also encouraging them to restructure viable loans. Looking ahead, a well capitalized and liquid financial sector will support the expected credit recovery and contribute to growth and economic development.

F. Structural Reforms

28. We completed a wide range of PFM-related reforms. We successfully introduced the first phase of the TSA for IFMS related transactions, included all central government entities in the Integrated Personnel and Payroll System (IPPS), improved controls, and cleaned the payroll. We will now proceed with the second phase by including donor accounts, and eliminating movements of cash by giving votes appropriate level of spending authority within cash limits consistent with the macro-framework (structural benchmark). So far, salaries of two local governments are already being processed on the IPPS, and our medium-term objective is to roll out the IPPS and IFMS to all local governments and government agencies.

29. Consultations with Parliament on the Public Financial Management Bill have been completed. The bill, which aims to improve public financial management, is now before the plenary of Parliament for consideration and approval. Work on regulations to operationalize the act on a range of issues, among others the charter of fiscal responsibility and oil revenue management (by conducting oil expenditure through the budget and holding financial investments abroad) will commence after the bill has been enacted by Parliament. Completion of the regulations is scheduled for May 2015 (structural benchmark).

30. Albeit with delays, the government has initiated the issuance of identity cards. The registration phase started in April 2014, and our target is to register 18 million Ugandan citizens. For this purpose the production and personalization centre has been fully set up. We expect to issue 1 million identity cards by December 2014, 3 million by July 2015 (structural benchmark), and 18 million by June 2016.

31. The Public Private Partnership (PPP) bill is before Parliament. Enacting this bill will establish the legal framework for the needed institutional, investment, monitoring and regulatory arrangements for implementing PPPs in the country. The legislation will govern the relationship between Government and the private party by establishing structured mechanisms for PPP agreements, including on management of processes, procurement rules and methods, confidentiality, and disclosure of interests. Under this PPP bill, a contracting authority shall not borrow, guarantee, or raise a loan for PPPs except as authorized by Article 159 of the Constitution of Uganda. We will continue to include in the annual budget framework paper and budget speech a status report of all ongoing PPP programs, including individual estimates of each project’s contingent liability.

32. The amendments to the Bank of Uganda Act will be finalized and submitted to Parliament by April 2015 (structural benchmark). Our objective of aligning the act to international best practices has delayed the process, originally expected to be completed by May, 2014. These amendments will include provisions for raising the BoU's capital to an adequate share of its monetary liabilities. In line with the MoU signed with the MOFPED, the BoU will contain its non-monetary policy related costs as detailed in its business plan (structural benchmark).

33. The BoU will continue to improve its monetary policy formulation and adapt its processes and organization to meet requirements under inflation targeting. As part of this effort, the BOU will continue to train staff with a view to ensuring that the monetary policy decision-making process incorporates recent developments in the economy and economic modeling and forecasting.

34. We achieved a key milestone in fostering the ongoing process of regional integration. On November 30, 2013 we signed the joint protocol setting out the process and convergence criteria for East African Community (EAC) monetary union with other Heads of States of the EAC. The protocol envisages the introduction of the common currency in 2024 and an institutional framework to monitor and enforce convergence.

35. We remain committed to addressing constraints affecting the business climate by stepping up infrastructure development mainly on energy and roads, and redoubling our efforts to fight corruption and improve governance.

G. Risks to the Program

36. Being a fully open economy, Uganda is subject to risks, including from developments in neighboring countries and policies in advanced economies that could affect trade, FDI, and portfolio inflows. We remain committed to prudent fiscal management despite the potential vulnerability to domestic shocks—but recognize that unpredictable weather conditions and implementation capacity constraints are risks to the program.

H. Program Monitoring

37. Progress in the implementation of the policies under this program will be monitored through quantitative assessment criteria (QACs), indicative targets (ITs), and structural benchmarks (SBs) detailed in the attached Tables 1 and 2B and through semi-annual reviews. Two quantitative assessment criteria (net domestic financing and net international reserves) are proposed to be modified for end-June 2014 and quantitative assessment criteria is proposed to be established for end-December 2014, to be monitored respectively at the third and fourth reviews. Indicative targets are proposed for September 2014 and March and June 2015. The third review is expected to be completed by end-December 2014 and the fourth review by end-June 2015. The attached Technical Memorandum of Understanding—which is an integral part of this memorandum—contains definitions and adjustors.

Annex I. Tax Measures to be Adopted in FY2014/15

A	**Excise Duties**
1	Impose excise duty of Shs200 per liter on kerosene.
2	Increase excise duty on petrol by Shs50 per liter.
3	Increase excise duty on diesel by Shs50 per liter.
4	Reinstate excise duty on sugar to Shs50 per kilo from the current Shs25 per kilo.
5	Impose excise duty on mobile money withdrawal fees at 10%.
6	Increase excise duty on soft cup and other soft cup cigarettes to Shs40,000 per 1000 sticks.
B	**Value Added Tax – Removal of exempt goods and services**
7	Remove exemption on supply of new computers, desktop printers, computer parts and accessories.
8	Remove exemption on supply of computer software and software licenses.
9	Remove exemption on supply of accommodation in tourist lodges and hotels outside Kampala District.
10	Remove exemption on supply of liquefied petroleum gas.
11	Remove exemption on supply of salt.
12	Remove exemption on supply of property and causality insurance services (keep exemption for life insurance).
13	Add VAT tax on bank charges.
14	Remove exemption on the supply of specialized vehicles, plant and machinery, feasibility studies, engineering designs, consultancy services and civil works related to hydroelectric power, roads and bridges construction, public water works, agriculture, education and health sectors.
C	**Value Added Tax – End zero-rating of goods and services**
15	End zero rate on supply of printing services for education materials.
16	End zero rate on the supply of seeds, fertilizers, pesticides and hoes.
17	End zero rate on supply of cereals, where the cereals are grown, milled or produced in Uganda.
18	End zero rate on the supply of processed milk and milk products.
D	**Income tax**
19	Eliminate initial allowances on eligible property.
20	Eliminate the exemption of income tax of educational institutions.
21	Separate rental income from business income for non individuals.
22	Impose income tax on gamblers and designate gambling houses to withhold tax (15%).
23	Increase the presumptive tax.
24	Eliminate the exemption from tax of interest earned on loans granted for the purpose of agriculture including farming, forestry, fish farming, bee keeping, animal husbandry or similar operations.
25	Add capital gains tax on the disposal of commercial buildings by individuals.
26	Amend the thin capitalization rule to limit excessive use of related party-debt.
E	**Government taxes**
27	Pay government taxes related to industry and company-specific exemptions in the amount of UGX 70 billion.
F	**East Africa Community Common External Tariffs Adjustments**
28	Increase duty on aerosols made from non- pyrethrum based insecticides to 25%.
29	Increase duty on towers and lattice masts to 10%.
30	Increase duty on welding electrodes to 25%.
31	Increase duty on used clothing to 15%.
G	**Removal of industry-specific exemptions**
32	The textile sector exemption that expires on June 30 2014 shall not be renewed.

Annex II. Memorandum of Understanding on Arrears

Context

The accumulation of unpaid bills and expenditure arrears by governments can have a serious negative effect on the domestic economy. Specifically, large and persistent unpaid bills and arrears accumulation imply expenditures are underreported and the repayment of these bills and arrears could impair future budget planning and result in undue costs. As a result, the control and clearance of unpaid bills and arrears have been important components in many IMF-supported programs. In Uganda, the current PSI contains structural benchmarks on unpaid bills and arrears as well as an indicative target to reduce the stock of cumulated unpaid bills and arrears. Unfortunately the structural benchmark has not been met to date.

The purpose of this memorandum is to formalize our common understanding of the definition of unpaid bills and arrears, and the reporting requirements of government officials. It will form the basis of the new structural benchmark and technical memorandum of understanding (TMU) on arrears in the IMF Staff Report.

Definitions

Unpaid Bill - Any verified outstanding payment owed by a Government entity for the following: utilities, rent, employee costs, other recurrent, court awards, compensation, contributions to international organizations, development, taxes and other deductions.

Arrear – The total stock of unpaid bills as of June 30 of the fiscal year as reported in the consolidated financial statements of the Government of Uganda.

Government entity – Government entities shall include all entities listed in Annex A as well as any other entity that forms part of the central government votes.

Verification

The accounting officer of each Government entity will be responsible for reporting the stock of unpaid bills and arrears.

On this basis the Accountant General will produce a report which will be signed and certified as true by the Accountant General and the PS/ST.

Reporting

A report verified by internal audit and approved by the PS/ST, containing the stock of unpaid bills as defined above shall be provided for quarters ending September 30, December 31, March 31 within 4 weeks of the end of the quarter. The report will be published within 6 weeks of the end of the quarter. The report shall contain all unpaid bill and repayment categories as shown in Annex B.
A report verified by internal audit and approved by the PS/ST containing the stock of domestic arrears, as defined above, shall be provided and published, as at June 30 by September 30 of the same year. This report shall be consistent with the consolidated financial statements of the

Government of Uganda. The report shall contain all unpaid bill and repayment categories as shown in Annex B. The report verified by the Auditor General shall be provided when it is released.

Measurement of Indicative Target

The indicative target included in the PSI will be the reduction in the stock of domestic arrears by UGX 80 billion in each of the next two fiscal years (FY2014/15 and FY2015/16).

"Taxes (VAT and PAYE)" will be excluded from the stock of domestic arrears for the purpose of evaluating the indicative target on arrears.

For quarters other than the quarter ending June 30, the stock of unpaid bills will be used to evaluate the indicative target.

Institutional Arrangements

Role of Accounting Officers

- Enter into the IFMS system all commitments when they are generated and invoices when they are received.
- Submit quarterly reports on unpaid bills to the Internal Audit Department.
- Submit an annual report on domestic arrears to the Internal Audit Department.

Role of Internal Audit Department

- Verifies unpaid bills and domestic arrears on a quarterly basis.
- Reports the verified positions to the PST/ST through the Accountant General on a quarterly basis.
- Drafts the Cabinet Memos on unpaid bills and arrears on a quarterly basis.

Role of Accountant General

- Consolidates reports on verified unpaid bills and domestic arrears provided by the Internal Audit Department.
- Publishes quarterly reports on verified unpaid bills and arrears as part of the Consolidated Financial Statements of the Government of Uganda.
- Provides quarterly reports on unpaid bills and arrears to the Auditor General to be incorporated into the annual audit process.

Role of Director of Budget

- Ensures that the fixed costs (e.g. rent, utilities, salaries, pensions, subscription to international organisations) of each Government entity are adequately budgeted in the Budget Framework Paper as a first call on resources.

- Ensures unpaid bills are paid as a first call on cash releases of the next quarter.

Role of Director of Economic Affairs

- Formulates an arrears strategy as part of the Public Debt Strategy.

Role of Permanent Secretary

- Approves reports of unpaid bills and domestic arrears produced by the Accountant General.

- Ensures roles and responsibilities of all participants in the process are executed as described above.

Assessment of Structural Benchmark

The structural benchmark in the PSI is redefined to include all Government entities as defined above (rather than the nine ministries currently used). Therefore the new benchmark will read:

Ministry of Finance to publish quarterly reports signed by the PS/ST on the stock of unpaid bills of all government entities contained in the central government votes for the previous quarter of the fiscal year.

November 15, 2014 for the quarter ending September 30, 2014.

February 15, 2015 for the quarter ending December 31, 2014.

May 15, 2015 for the quarter ending March 31, 2015.

Ministry of Finance to publish a report signed by the PS/ST on the stock of domestic arrears of all government entities contained in the central government votes.

September 31, 2014 for the quarter ending June 30, 2014.

Annex A. Government Entities to be Included in Stock of Unpaid Bills and Arrears

1	Office of the President
	Internal Security Organization
	Minister of Security
	Senior Presidential Advisor/Co-ordination of Intelligence Service
2	State House
3	Office of the Prime Minister
4	Ministry of Defense
5	Ministry of Public Service
6	Ministry of Foreign Affairs
7	Ministry of Justice and Constitutional Affairs
8	Ministry of Finance, Planning and Economic Development
9	Ministry of Internal Affairs
10	Ministry of Agriculture Animal Industry and Fisheries
11	Ministry of Local Government
12	Ministry of Lands, Housing and Urban Development
13	Ministry of Education and Sports
14	Ministry of Health
15	Ministry of Trade Industry and Co-operatives
16	Ministry of Works and Transport
17	Ministry of Energy and Mineral Development
18	Ministry of Gender, Labor and Social Development
19	Ministry of Water and Environment
20	Ministry of Information and Communication Technology
21	Ministry of East African Community Affairs
22	Ministry of Tourism, Wildlife and Heritage
101	Judiciary
104	Parliamentary Commission
105	Uganda Law Reform Commission
107	Uganda AIDS Commission Secretariat
108	National Planning Authority
112	Directorate of Ethics and Integrity
113	Uganda National Roads Authority (UNRA)
115	Uganda Heart Institute

120	National Citizenship and Immigration Control
122	Kampala Capital City Authority
133	Directorate of Public Prosecutions
132	Education Service Commission
134	Health Service Commission
142	National Agricultural Research Organization (NARO)
144	Uganda Police Force
145	Uganda Prisons
146	Public Service Commission
147	Local Government Finance Commission
148	Judicial Service Commission
149	Gulu University
151	Uganda Blood Transfusion Service
152	National Agriculture Advisory Services (NAADS) Secretariat
155	Cotton Development Organization
156	Uganda Land Commission
159	External Security Organization
161	Mulago Hospital Complex
162	Butabika Hospital
137	Mbarara University
163	Arua Regional Referral Hospital
165	Gulu Regional Referral Hospital
170	Mbale Regional Referral Hospital
167	Jinja Referral Hospital
169	Masaka Regional Referral Hospital
164	Fort Portal Regional Referral Hospital
168	Kabale Regional Referral Hospital
166	Hoima Regional Referral Hospital
171	Soroti Regional Referral Hospital
172	Lira Regional Referral Hospital
173	Mbarara Regional Referral Hospital
202	Uganda High Commission in London, United Kingdom
208	Uganda High Commission in Abuja Nigeria
211	Ugandan Embassy in Addis Ababa Ethiopia
212	Uganda Embassy in Guangzhou China
219	Uganda Embassy in Brussels, Belgium

220 Uganda Embassy in Rome, Italy

227 Uganda Embassy in Moscow Russia

699 Makerere University Business School

682 Makerere University

703 Kyambogo University

Uganda Broadcasting Corporation

Annex B. Sample Report of Unpaid Bills

(Ush millions)

Code	Vote Name	Utilities	Rent	Employee Costs	Other Recurrent	Court Awards	Compensation	Contributions to International Organizations	Taxes and Other Deductions (VAT, PAYE, NSSF)	Sub-totals	Paid during FY
1	Office of the President										
	Internal Security Organisation										
	Minister of Security										
	Senior Presidential Advisor/Co-ordination of Intelligence Service										
2	State House										
3	Office of the Prime Minister										
4	Ministry of Defence										
5	Ministry of Public Service										
6	Ministry of Foreign Affairs										
7	Ministry of Justice and Constitutional Affairs										
8	Ministry of Finance, Planning and Economic Development										
9	Ministry of Internal Affairs										
10	Ministry of Agriculture Animal Industry and Fisheries										
11	Ministry of Local Government										
12	Ministry of Lands, Housing and Urban Development										
13	Ministry of Education and Sports										
14	Ministry of Health										
15	Ministry of Trade Industry and Co-operatives										
16	Ministry of Works and Transport										
17	Ministry of Energy and Mineral Development										
18	Ministry of Gender, Labour and Social Development										
19	Ministry of Water and Environment										
20	Mnistry of Information and Communication Technology										
21	Ministry of East African Community Affairs										

Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for September 2013–June 2015[1]
(Cumulative change from the beginning of the fiscal year, unless otherwise stated)

	September 30, 2013 [2]				December 31, 2013 [2]				March 31, 2014 [2] (Preliminary)				June 30, 2014 [2]		September 30, 2014 [3]	December 31, 2014 [3]	March 31, 2015 [3]	June 30, 2015 [3]
	Program	Adjusted target	Outturn	Result	Program	Adjusted target	Outturn	Result	Program	Adjusted target	Outturn	Result	Program	Revised Program	Program	Program	Program	Program
(Billions of Ugandan shillings)																		
Assessment criteria																		
Ceiling on the increase in net domestic financing of the central government	257	262	363	Not met	736	706	718	Not met	1,053	1,024	n.a	n.a	1,862	1,647	1,539	2,196	2,542	2,600
(Millions of US dollars)																		
Ceiling on the stock of external payments arrears incurred by the public sector [4]	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturities greater than one year by the public sector [4, 5]	1,500		0	Met	2,200		101 [9]	Met	2,200		101	Met	2,200	2,200	2,200	2,200	2,200	2,200
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [4, 6]	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	16	14	-8	Not met	42	54	117	Met	2	13	314	Met	-140	178	-250	-275	-175	-109
Share of oil revenue placed in the Petroleum Fund [7]	100		100	Met	100		100	Met	100		100	Met	100	100	100	100	100	100
(Billions of Ugandan shillings)																		
Indicative targets																		
Ceiling on the increase in base money liabilities of the Bank of Uganda	239		87	Met	434		331	Met	541		479	Met	593	570	236	377	519	659
Floor on tax revenue	1,813		1,778	Not met	3,988		3,765	Not met	5,972		5,679	Not Met	8,314	7,914	2,078	4,625	7,038	9,777
Expenditures on poverty alleviating sectors	607		660	Met	1,246		1,330	Met	1,745		2,109	Met	2,612	2,731	701	1,403	2,104	2,806
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
Net change in the stock of domestic arrears					0		n.a.	Not met	-24		280	Met	-50	-50	-20	-40	-60	-80
Withdrawals from energy and petroleum funds														120	1,102	1,102	1,102	1,102
(Annual percentage change)																		
Inflation consultation clause																		
Outer band (upper limit)	9.0				9.7				9.6				9.3	9.3	9.0	8.7	8.3	8.0
Inner band (upper limit)	8.0				8.7				8.6				8.3	8.3	8.0	7.7	7.3	7.0
Core inflation target [8]	6.0		5.7	Met	6.7		6.3	Met	6.6		5.8	Met	6.3	6.3	6.0	5.7	5.3	5.0
Inner band (lower limit)	4.0				4.7				4.6				4.3	4.3	4.0	3.7	3.3	3.0
Outer band (lower limit)	3.0				3.7				3.6				3.3	3.3	3.0	2.7	2.3	2.0

[1] Defined in the Technical Memorandum of Understanding (TMU). Values for December 2013, June 2014 and December 2014 are quantitative assessment criteria. Values for September 2013, March 2014, September 2014, March 2015 and June 2015 are indicative targets.

[2] Proposed targets are measured as the change from June 2013, except as marked.

[3] Proposed targets are measured as the change from June 2014, except as marked.

[4] Continuous assessment criterion.

[5] Cumulative change from June 28, 2013. To be used exclusively for infrastructure investment projects.

[6] Excluding normal import-related credits.

[7] To ensure full and transparent transfer of oil revenues to the fiscal accounts.

[8] Annual percentage change, twelve-month period average core inflation. Calculated as stipulated in the TMU.

[9] Two loans from the Islamic Development Bank, carrying grant elements of 22.1 and 26.5 percent, were contracted in December to finance development projects.

Table 2A. PSI Structural Benchmarks

Policy Measure	Macroeconomic Rationale	Date	Status
1. Government to carry out the first stage of recapitalization of the Bank of Uganda with marketable securities to the amount stipulated by law.	To enhance monetary policy independence and central bank credibility.	July 2013	Met
2. Ministry of Finance to submit 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.	October 1, 2013, for quarter ending June 30, 2013; January 1, 2014, for quarter ending September 30, 2013; April 1, 2014, for quarter ending December 31, 2013.	Not met Not met Not met (proposed to be redefined – Table 2B, SB 2)
3. Government to carry out a VAT gap analysis in consultation with IMF staff and to publish such analysis.	To make transparent the costs of VAT tax expenditures.	March 2014	Not met Published in May, 2014
4. Government to complete the rollout of the IPPS to cover management of the payroll of all entities within central government.	To improve both governance and transparency of budget execution.	April 15, 2014	Met
5. Government to complete the expansion of the treasury system (IFMS) to all of central government votes.	To improve both governance and transparency of budget execution.	April 15, 2014	Met
6. Ministry of Finance to submit to cabinet amendments to the Bank of Uganda Act including a provision for capital adequacy of BoU as an adequate percent of monetary liabilities, as well as other provisions to support implementation of inflation targeting.	To enable full monetary policy independence and credibility of the central bank.	May 2014	Not met (proposed to be rescheduled– (Table 2B; SB 1)
7. Government to start introducing a treasury single account for IFMS related transactions, including for the TGAs, salaries, and IFMS projects.	To improve both governance and transparency of budget execution.	March 2014	Met
8. Government to present to cabinet within the budget framework paper an action plan to implement the recommendations on addressing tax exemptions that come out of the VAT gap analysis.	To improve tax efficiency.	May 2014	Not met (measures included in the budget speech in June)

Policy Measure	Macroeconomic Rationale	Date	Status
9. Government to 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 2014	Not met (sent with budget speech in June)
10. Government to have issued a minimum of 1 million ID cards under the new national identification system.	To support efforts to strengthen revenue collection, promote the unique identification of financial sector clients, and combat money laundering and the financing of terrorism.	May 2014	Not met (proposed to be rescheduled Table 2B; SB
11. Government to eliminate the income tax exemption on income derived from agro-processing.	To increase revenue and tax administration efficiency.	July 2014	Not met (proposed to be replaced by SBs 3 and 4 (Table 2).
12. Government to continue with annual recapitalizations of the Bank of Uganda with marketable securities to bring capital to the statutory level until amendments to the Bank of Uganda act come into force, on the basis of the BoU's implementation of its commitment to contain operational and administrative costs.	To enhance central bank efficiency. To enhance central bank discipline and monetary policy independence.	June 2014 June 2015	Not met (proposed to be rescheduled to Table 2)

Table 2B. Redefined and New Structural Benchmarks			
Policy Measure	**Macroeconomic Rationale**	**Date**	**Status**
1. Ministry of Finance to submit to Parliament amendments to the Bank of Uganda Act including a provision for capital adequacy of BoU as an adequate percent of monetary liabilities, as well as other provisions to support implementation of inflation targeting in line with international best practices.	To enable monetary policy independence and credibility of the central bank.	April 2015	Proposed to be rescheduled (SB 6 in Table 12A).
2. Government to continue with annual recapitalizations of the Bank of Uganda with marketable securities to bring capital to the statutory level until amendments to the Bank of Uganda act come into force, on the basis of the BoU's commitment to implement its business plan to contain operational and administrative costs.	To enhance central bank efficiency. To enhance central bank discipline and monetary policy independence.	October 2014 October 2015	Proposed to be rescheduled (SB 12 in Table 2A)
3. Ministry of Finance to publish quarterly reports signed by the PS/ST on the stock of unpaid bills of all government entities contained in the central government votes.	To facilitate control and reduction of unpaid bills.	November 15, 2014 for the quarter ending September 30, 2014. February 15, 2015 for the quarter ending December 31, 2014. May 15, 2015 for the quarter ending March 31, 2015.	Proposed to be redefined (SB 2 in Table 2A)
4. Ministry of Finance to publish a report signed by the PS/ST on the stock of domestic arrears of all government entities contained in the central government votes.	To facilitate control and reduction of expenditure arrears.	September 30, 2014 for the quarter ending June 30, 2014.	Proposed to be redefined (SB 2 in Table 2A)
5. Government to have issued a minimum of 3 million ID cards under the new national identification system.	To support efforts to strengthen revenue collection, promote the unique identification of financial sector clients, and combat money laundering and the financing of terrorism.	July 2015	Proposed to be rescheduled (SB 10 in Table 2A)

Policy Measure	Macroeconomic Rationale	Date	Status
6. Government to eliminate exemptions on supply of specialized vehicles, plant and machinery, feasibility studies, engineering designs, consultancy services and civil works related to hydroelectric power, roads and bridges.	To increase revenue and tax administration efficiency.	July 2014	Proposed new
7. Government to eliminate exemption from tax of interest earned on loans granted for the purpose of agriculture including farming, forestry, fish farming, bee keeping, animal husbandry or similar operations.	To increase revenue and tax administration efficiency.	July 2014	Proposed new
8. URA to register, assess, and collect revenue using the trading license regime in at least three municipalities.	To enhance revenue collections.	December 2014	Proposed new
9. Ministry of Finance to complete the second phase of the TSA introduction, by including donor accounts, and eliminating movements of cash by giving votes appropriate level of spending authority within cash limits consistent with the macro-framework.	Complete the process of improving cash management and controls.	March 2015	Proposed new
10. Ministry of Finance to issue regulations for implementation of the PFM bill.	Ensure efficient PFM implementation and oil revenue management by providing guidelines, clarifying and making specific those aspects that are general in the law.	May 2015	Proposed new
11. Ministry of Finance to issue the charter of fiscal responsibility.	To improve fiscal and macroeconomic management.	May 2015	Proposed new

Attachment II. Technical Memorandum of Understanding

A. 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, 2014—June 30, 2015, and sets forth the reporting requirements under the instrument. For the second year of the PSI-supported program, the stock of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the cross exchange rates referred to in the table below for the various currencies and then converted into Uganda shillings using the program U.S. dollar-Uganda shilling exchange rate for end-March 2014.

Program Exchange Rates (end-March 2014)	
US Dollar (US$)	1.0
British Pound/US$	0.6
Japanese Yen/US$	102.9
SDR/US$	0.6
Kenyan Shillings/US$	86.3
Tanzania Shillingss/US$	1630.7
Euro/US$	0.7
Ugandan Shillings/US$	2549.5

B. Consultation Mechanism on Inflation (QAC)

2. The quarterly consultation bands for the twelve-month average rate of consumer price inflation (as measured by the core consumer price index (CCPI) published by the Uganda Bureau of Statistics (UBOS)) are specified in Text Table 1. Projected CCPI inflation for end-June 2014, end-December 2014 and end-June 2015 will be subject to the consultation mechanism, while those for end-September 2014 and end-March 2014 are indicative targets.

Text Table 1. Inflation Targets					
	Jun. 2014	Sep. 2014	Dec. 2014	Mar. 2015	Jun. 2015
Outer band (upper limit)	9.3	9.0	8.7	8.3	8.0
Inner band (upper limit)	8.3	8.0	7.7	7.3	7.0
Core inflation target	6.3	6.0	5.7	5.3	5.0
Inner band (lower limit)	4.3	4.0	3.7	3.3	3.0
Outer band (lower limit)	3.3	3.0	2.7	2.3	2.0

3. Should the observed average CCPI inflation for the test date linked to a PSI program review (i.e., end-June 2014 for the third review and end-December 2014 for the fourth review) fall outside the outer band as specified in the above table, the authorities will complete a consultation with the Executive Board of the Fund on their proposed policy response before

requesting completion of the review under the program. The authorities will not be able to request completing a review under the PSI-supported program if the average CCPI inflation has moved outside of the outer band as of the test date linked to such review, until the consultation with the Executive Board has taken place. In line with the accountability principles, the BoU will report to the public the reasons for any breach of the outer bands, and its policy response. In addition, the BoU will conduct discussions with the Fund staff when the observed average CCPI inflation falls outside the inner band as specified for the end of each quarter in the above table.

C. Base Money (IT)

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 June 2014 will be a ceiling on the cumulative change from the monthly average based on daily data for June 2013 to the same monthly average for June 2014. The base money limits for September 2014, December 2014, March 2015, and June 2015 will be ceilings on the cumulative change from the monthly average based on daily data for June 2014 to the same monthly averages for September 2014, December 2014, March 2015, and June 2015, respectively. Base money limits for June, September, and December 2014, March and June 2015 will be indicative targets under the PSI-supported program.

D. Ceiling on the Cumulative Increase in Net Domestic Financing of the central Government11 (QAC)

5. Definition. The cumulative increase in net domestic financing of the central government (NDF) is defined from below the line on a cash basis as the sum of:

a. *the change in net claims on the central government by the banking system:* Net claims on the central government 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 deposit corporations, excluding 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. NDF by deposit corporations will be calculated based on data from balance sheets of the monetary authority and deposit corporations as per the deposit corporations' survey.

b. *the change in net claims on the central government of domestic nonbank institutions and households*: net claims on the general government of domestic nonbank institutions and

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

households are defined as treasury bills, bonds or other government securities held by nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other liabilities of the central government to domestic nonbank institutions or households.

All changes will be calculated as the difference between end-of-period stocks, net of any valuation changes resulting from currency movements.

E. Floor on Net International Reserves of the Bank of Uganda (QAC)

6. Net international reserves (NIR) of the BoU are defined for program-monitoring purposes 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 1). The NIR limit for June 2014 will be a floor on the change of the NIR stock from June 2013 to June 2014. The NIR limits for September 2014, December 2014, March 2015 and June 2015 will be floors on the change of the NIR stock from June 2014 to September 2014, December 2014, March 2015 and June 2015, respectively. The NIR limits for June and December 2014 will be quantitative assessment criteria under the PSI-supported program; the floor for September 2014, March and June 2015 will be indicative targets.

F. Expenditures on Poverty Alleviating Sectors (IT)

8. The indicative target on poverty alleviating expenditures includes domestic expenditures inclusive of wages and salaries in the Health, Education, Water and Environment and Agriculture sectors, as defined by the Government of Uganda's functional budget classification, excluding those which are externally financed. Compliance with the indicative floor for poverty alleviating expenditures will be verified on the basis of releases.

G. Ceiling on Issuance of Guarantees by the Government or Bank of Uganda (IT)

9. 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 28, 2013, and

including any guarantees issued prior to this date but which are extended after June 28, 2013. This excludes guarantee programs which have explicit budget appropriations.

H. Share of Oil Revenue Placed in Petroleum Fund (QAC)

10. 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 PFMB; 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 PFMB is enacted).

I. Tax Revenue (IT)

11. A floor applies on tax revenue of central government measured cumulatively from the beginning of the fiscal year. For program monitoring purposes, tax revenue is defined as the sum of direct domestic taxes (PAYE, corporate tax, presumptive tax, other direct taxes, withholding tax, rental income tax, tax on bank interest, casino tax and unallocated receipts), excise duty and value-added taxes net of refunds and taxes on international trade minus temporary road licenses, and fees to hides and skins, as defined by the Government of Uganda's revenue classification.

J. Net Accumulation of Domestic Arrears of the Government (IT)

12. A ceiling applies to net accumulation of domestic arrears of the central government as an indicative target.[2] The ceiling for each test date until June 30th 2014 is measured cumulatively from July 1, 2013 and the ceiling for each test date until June 30th 2015 is measured cumulatively from July 1, 2014.

13. Definition. An unpaid bill is any verified outstanding payment owed by any entity that forms part of the central government votes for the following: utilities, rent, employee costs, other recurrent, court awards, compensation, contributions to international organizations, development, taxes and other deductions. Domestic arrears are the total stock of unpaid bills as of June 30 of the fiscal year as reported in the consolidated financial statements of the Government of Uganda.

14. For quarters other than the one ending June 30, the net change in the stock of unpaid bills will be used as the indicative target. For the quarter ending in June 30, the change in the

[2] A negative target thus represents a floor on net repayment.

total stock of unpaid bills as reported in the consolidated financial statements of the Government of Uganda will be used as the indicative target.

K. Withdrawals from the GoU Deposits from the Petroleum and Energy Funds (IT)

15. The indicative target on withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund aims at channeling these resources to key infrastructure projects while ensuring coordination on accompanying impact on liquidity. A ceiling applies on withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund measured cumulatively from the beginning of the fiscal year. Withdrawals will be restricted to meet the following uses (i) spending on Karuma and Isimba hydro-power projects and the associated industrial substations, specifically related to the loan agreement between the Government of Uganda and China Eximbank (the Government of Uganda share adds up to US$424 million covering 15 percent of total costs of projects, loan insurance, and management fees); and (ii) spending on land acquisition for Karuma and Isimba HPPs (Ush120 billion).

L. Adjusters

16. The NIR target is based on program assumptions regarding budget support, assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the MDRI, external debt-service payments. The NIR target is based on program assumptions regarding automatic access by commercial banks to the BoU's rediscount and discount window facilities.

17. The Uganda shilling equivalent of projected budget support (grants and loans) excluding HIPC Initiative and MDRI 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 NDF 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, excluding HIPC Initiative and MDRI assistance, exceeds (falls short of) the projected amounts.

Schedule A: Budget Support[1]
(Ush billions)

	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15
Cumulative from July 1 of respective fiscal year	218	67	147	219	257

[1]Debt service is defined as pre-HIPC Initiative debt service.

18. The ceilings on the cumulative increase in NDF and the cumulative withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund will be adjusted for (i) spending on Karuma and Isimba hydro-power projects and the associated industrial substations, specifically related to the loan agreement between the Government of Uganda and China Eximbank (the

Government of Uganda share adds up to US$424 million covering 15 percent of total costs of projects, loan insurance, and management fees); and (ii) spending on land acquisition for Karuma and Isimba HPPs (Ush120 billion). The ceilings on the cumulative increase in NDF and the cumulative withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund will be adjusted downward by the amount by which the domestic currency equivalent of the aforementioned spending (i) and (ii) financed by withdrawals from the Petroleum Fund and the Energy Fund (using the market exchange rate) falls short of the projected amounts as set out in Schedule B. The ceilings on the cumulative increase in NDF and the cumulative withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund will be adjusted upward by the amount by which the domestic currency equivalent of the spending to meet higher-than-expected Government of Uganda share associated with the aforementioned China Eximbank loan and financed by withdrawals from the Petroleum Fund and the Energy Fund (using the market exchange rate) exceeds the projected amounts as set out in Schedule B up to a cap of the domestic currency equivalent of US$64 million. Spending on these projects financed by external borrowing are not included in this adjustor.

Schedule B: Expenditures on hydropower projects
(Ush billions)

	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15
Cumulative from July 1 of respective fiscal year					
Land acquisition for Karuma and Isimba HPPs	120	0	0	0	0
Government share associated with the China Eximbank loan	0	1,102	1,102	1,102	1,102

19. The ceiling on the cumulative increase in NDF will be adjusted upward (downward) by the amount by which inflows into the petroleum fund falls short of (exceeds) the projected amounts as set out in Schedule C.

Schedule C: Inflows into Petroleum Fund
(Ush billions)

	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15
Cumulative from November 1, 2013	0	0	0	0	0

20. The floor on the increase in NIR will be adjusted upward (downward) by the amount by which withdrawals from the Ush denominated deposits of the GoU in the Energy Fund and the Petroleum Fund (using the market exchange rate) to cofinance spending on Karuma and Isimba hydropower projects and the associated industrial substations, specifically related to the loan

agreement between the Government of Uganda and China Eximbank (the Government of Uganda share covers 15 percent of total costs of projects, loan insurance, and management fees) and required to be contributed in US$ according to the loan agreement, falls short of (exceeds) the projected amounts as set out in Schedule D. The GoU will first withdraw the foreign currency denominated portion of its deposits in the BoU, including any new foreign currency inflows to the Petroleum Fund and the Energy Fund compared to the projected amounts as set out in Schedule D. The downward adjustment to the change in NIR will be capped at US$64 million earmarked only to meet higher-than-expected Government of Uganda share that will be required to be contributed in US$ according to the loan agreement between the GoU and the China Eximbank financing these three projects.

Schedule D: Withdrawals from the Energy and Petroleum Funds to Finance HPP
(US$ millions)

	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15
Cumulative from November 1, 2013	0	252	252	252	252

21. The currency composition of the Energy Fund and the Petroleum Fund are given below. The foreign currency denominated deposits of the Petroleum Fund and the Energy Fund do not constitute part of the BoU's international reserves and as such are recorded under other foreign assets of the BoU. Any further foreign currency denominated inflows to these Funds will continue to be recorded outside of the reserves and under other foreign assets of the Bank of Uganda.

Stock of the Oil and Energy Fund at May 6, 2014
(Ush billions and USD millions)

	Ush	USD	
Energy Fund	300	181	(BoU reserves)
Petroleum Fund	1162	172	(BoU other assets)

22. The ceiling on NDF will be adjusted upward (downward) by the amount by which the recapitalization of the Bank of Uganda exceeds (falls short of) the projected amounts as set out in Schedule E.

Schedule E: Recapitalization of the Bank of Uganda
(Ush billions)

	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15
Cumulative from July 1 of respective fiscal year	0	0	250	250	250

M. Ceiling on the Contracting or Guaranteeing of New Non-concessional External Debt by the Public Sector, and Ceiling on the Stock of External Payments Arrears Incurred by the Public Sector[3]

23. 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 20.

24. The program includes a ceiling on new non-concessional borrowing with maturities greater than one year contracted or guaranteed by the public sector.[4] Non-concessional borrowing is defined as loans with a grant element of less than 35 percent. The discount rate used for this purpose is 5 percent. The ceiling on non-concessional 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 non-concessional 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 non-concessional external borrowing. Excluded from these limits are also non-concessional borrowing within the limits specified in Table 1 of the MEFP. The ceiling also excludes non-concessional 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.

25. 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:

[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.

(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.

26. 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 2013. 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.

N. Monitoring and Reporting Requirements

27. 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 market.	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 depository corporations' survey.	Monthly	4 weeks
	Daily balances of net foreign assets, net domestic assets, and base money of the BoU.	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
	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 non-concessional external borrowing; and (v) net international reserves.	Quarterly	6 weeks

Attachment II. Table 1. Summary of Reporting Requirements			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
II. Ministry of Finance	Summary of central government accounts. Revenues shall be recorded on a cash basis. Expenditures shall be recorded when checks are issued, except for domestic and external debt-service payments[5], cash transfers to districts, and externally funded development expenditures. Expenditures on domestic interest will be recorded on an accrual basis and external debt service will be recorded on a commitment basis (i.e., when payment is due).	Monthly	4 weeks
	Summary of the stock of unpaid bills by government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Quarterly	6 weeks
	Summary of the stock of arrears by government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Annual	3 months
	Summary of contingent liabilities of the central government and the Bank of Uganda. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Quarterly	6 weeks
	Detailed monthly central government account of disbursed budget support and project grants and loans (less change in the stock of project accounts held at the BoU and commercial banks), HIPC support, and external debt service due and paid.	Quarterly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	Statement on new external loans contracted or guaranteed by the central government and the Bank of Uganda during the period according to loan agreements.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	12 weeks

[5] The budget records domestic interest payments on cash-basis while for program purposes this entry will be reported on an accrual basis.