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UGANDA

FISCAL TRANSPARENCY EVALUATION

May 2017

This Fiscal Transparency Evaluation on Uganda was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in May 2016.

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FISCAL AFFAIRS DEPARTMENT

Uganda

Fiscal Transparency Evaluation

Suzanne Flynn, Imran Aziz, Kubai Khasiani, Fazeer Sheik Rahim, Brooks Robinson, and Amitabh Tripathi

Technical Assistance Report | May 2017

INTERNATIONAL MONETARY FUND

F I S C A L   A F F A I R S   D E P A R T M E N T

Uganda
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TABLES

ACRONYMS

AFRITAC East	East Africa Regional Technical Assistance Center (IMF)
AFRITAC South	Regional Technical Assistance Center in Southern Africa (IMF)
BCG	Budgetary Central Government
BoU	Bank of Uganda
COFOG	Classification of Function of Government
EAC	East African Community
EAMU	East African Monetary Union
FTE	Fiscal Transparency Evaluation
GFSM 2014	Government Financial Statistics Manual 2014
GFSY	Government Financial Statistics Yearbook
IFMS	Integrated Financial Management Systems
MoFPED	Ministry of Finance, Planning, and Economic Development
NSSF	National Social Security Fund
NWSC	National Water and Sewage Corporation
PFMA	Public Finance Management Act, 2015
PPP	Public-Private Partnership
UETCL	Uganda Electricity Transmission Company
UGX	Ugandan Shillings

PREFACE

In response to a request by the Permanent Secretary/Secretary to the Treasury of the Ministry of Finance, Planning, and Economic Development (MoFPED), a mission from the Fiscal Affairs Department of the IMF visited Kampala from April 27–May 10, 2016, to carry out a Fiscal Transparency Evaluation (FTE). The mission was led by Suzanne Flynn of the Fiscal Affairs Department, and included Kubai Khasiani, Fazeer Sheik Rahim, Brooks Robinson, and Amitabh Tripathi from AFRITAC East and Imran Aziz from AFRITAC South. A preparatory mission comprising Fazeer Sheik Rahim, Brooks Robinson, and Paul Seeds, took place over March 21 to 24, 2016.

The objective of the mission was to evaluate Uganda's fiscal reporting, fiscal forecasting and budgeting, and fiscal risk analysis management practices against the standards set by the 2014 version of the IMF's *Fiscal Transparency Code*. This evaluation is part of the fiscal surveillance action plan agreed between the East Africa Community Secretariat and partner states aimed at developing and harmonizing public financial management and fiscal reporting in the convergence period ahead of the target date for regional monetary union of 2024. Kenya underwent an evaluation in 2014, Tanzania in 2015, and other partner states are expected to undertake similar evaluations over the next year.

The evaluation is based on information available at the time it was completed in May 2016. The findings and recommendations represent the views and advice of the IMF mission team and do not necessarily reflect those of the government of the Republic of Uganda. Unless otherwise specified, the data included in the text, figures, and tables in the report are estimates made by the IMF mission team and are not official estimates of the government of Uganda.

At the Ministry of Finance, the mission met with the Permanent Secretary/Secretary to the Treasury, and with members of staff from the Economic Affairs, Budget, Cash and Debt Management Directorates, and the Accountant General's Office.

Outside the Ministry of Finance, the mission met with the Auditor General, the Parliamentary Budget Office, Uganda Revenue Authority, Uganda Bureau of Statistics, Bank of Uganda (BoU), National Planning Authority, Ministry of Energy and Minerals, Ministry of Local Government, Office of the Prime Minister, Economic Policy Research Centre, Electricity Regulatory Authority, and staff members at each institution. The mission met with members of the Civil Society Budget Advocacy Group and also briefed donor partners in Uganda.

The mission would like to thank all the participants for the useful discussions and assistance provided especially Mr. Obadia Turinawe for organizing meetings involving a wide range of stakeholders. The mission is also very grateful for the support and advice provided by the IMF's Uganda office, in particular Ms. Clara Mira, Resident Representative; Ms. Caroline Akishule, Economist; and Ms. Winifred Bisamaza, Office Manager. Finally, the mission would also like to thank Rohini Ray (FAD Research Assistant) for her support in compiling data and cross-country comparisons.

EXECUTIVE SUMMARY

Uganda has some important elements of fiscal transparency in place and these have been added to in recent years through a number of reforms. Specifically:

- The new Public Finance Management Act 2015 (PFMA) specifies the budget calendar, the main contents of budget documents, and the roles of the legislature and the executive in the budget process. The implementation of the Act has enhanced the timeliness of the presentation of the budget to Parliament and the publication of audited annual financial statements in line with good practice.
- Budget documents include forecasts of the main macroeconomic variables, medium-term revenue and expenditure projections, and budget year gross revenue and expenditure plans for budgetary central government (BCG) and 13 of the extra-budgetary units. The documents also set out the government's main policy objectives and summarize past performance against the objectives.
- A dedicated website is actively updated with online information on budgets, budget releases, revenue and expenditure for local governments, and semi-annual performance reports for the central government.
- The reports on debt sustainability and debt strategy assess the risks around the government's stock of debt and provide projections for debt under alternative economic scenarios. Other reports submitted to Parliament provide information on contingent liabilities, such as court claims, guarantees, and commitments under public-private partnerships.

As a result, Uganda meets at least the standard of good or advanced practice in 13 of the 36 dimensions of the first three pillars of the IMF's *Fiscal Transparency Code*, while 23 of the 36 dimensions are scored as basic or not met, reflecting issues with the coverage, quality, and reliability of some information:

- Fiscal reports do not provide a complete picture of all the entities comprising the public sector. The budget and semi-annual budget execution reports only cover about 77 percent of the expenditure of the public sector, as they exclude the full revenues and expenditure of around 63 central government extra-budgetary units, and 32 public corporations.
- The coverage of transactions by those entities included in government's finance reports is incomplete. The government's future pension obligation under the civil servant pension scheme has not been disclosed and is estimated to be around 22 percent of GDP. The list of tax exemptions does not cover a complete range of tax expenditures.
- Difficulties in tracking in-year changes to the budget undermine the credibility of the budget process. Expenditure reductions and reallocations (which have averaged over 6 percent of total expenditure) have not required the prior approval of Parliament, and a complete

summary and explanation of the changes has not been made public until late in the fiscal year.

- The absence of effective multiannual commitment controls weakens public investment management practices. While information is published in the *Public Investment Plan*, it does not clearly state the lifetime costs of investment projects or summarize planned expenditure over the medium term.
- Although information is published on macroeconomic risks to the fiscal outlook, and on specific fiscal risks, the information is scattered, and risk analysis could be further refined. The publication for the first time this year of a summary fiscal risk statement represents an effort to address this, but some important risks, related to the sustainability of the civil service pension scheme, and the management of public assets and liabilities, are not covered. The management of fiscal risks through the budget, in the form of a provision for contingencies, is yet to be put in place.

Addressing these issues will assume greater importance, as additional fiscal policy challenges emerge. In particular:

- From 2020, it is expected that there will be new revenues from oil, estimated at up to 3 percent of GDP at peak production. This has the potential to provide additional resources to support the development of the economy primarily through investment in infrastructure. However, international experience shows that the volatility and exhaustibility of natural resource revenues create significant challenges for economic and fiscal management.
- Uganda is a signatory of the East African Monetary Union (EAMU) Protocol, which targets the adoption of a single currency in the region by 2024. The Protocol and accompanying guidelines place additional fiscal reporting requirements on member countries, including the production of regular assessments of the fiscal outlook against the monetary union's convergence criteria, and an annual fiscal risk statement. The Protocol also requires adherence to fiscal deficit and debt ceilings in the three years ahead of 2024.
- The government has plans for a program of large infrastructure projects using a range of funding instruments, including public-private partnership (PPP) arrangements and external loans. Although such projects are expected to boost economic growth in the medium term, they can be sources of fiscal risks, which the government will need to manage carefully.

On the basis of the analysis, this report recommends that the government:

- Enhance the coverage and comparability of budget documents and fiscal reports:
    - Expand data collection for extra-budgetary units and local governments to develop fiscal reporting on a general government basis in line with East African Community (EAC) requirements. (1.1)

- Publish comprehensive reports on tax expenditures and the annual financial statements. (1.2)
    - Incorporate balance sheets into fiscal reporting, and progressively expand their coverage to include liabilities, such as actuarially estimated public pension liabilities, and nonfinancial assets. (1.3)
- Enhance the integrity of fiscal reports:
    - Publish reconciled fiscal data to enhance comparability of annual financial statements with budget outturns and fiscal statistics. (1.4)
- Improve the transparency and control of investment projects:
    - Include estimates of total project costs in budget documents with projected expenditures over the medium-term expenditure framework and ensuring that all major projects are subject to a feasibility study including a cost benefit analysis that is published. (2.1)
- Publish and report on fiscal objectives:
    - Publish the Charter for Fiscal Responsibility and regularly report on: (i) the impact of proposed changes in revenue and expenditure; (ii) the measures to meet the fiscal policy objectives; and (iii) the progress against these objectives. (2.2)
- Provide clear and timely information on in-year changes to budget plans:
    - Provide a summary of in-year changes to expenditure and revenue plans by budget unit (vote) shortly after they have been agreed, and incorporate the information in the subsequent semi-annual execution report. (2.3)
- Improve the management of fiscal risks:
    - Enhance the fiscal risk statement by including probabilistic forecasts of fiscal outcomes; more comprehensive reporting of specific fiscal risks; analysis of the long-term fiscal projections for the next 30–50 years using demographic, macroeconomic, and fiscal assumptions, including oil revenue; and government contractual obligations under existing PPPs over the lifetime of the projects. (3.1)
- Implement the PFMA (2015) by providing a contingency in the budget. (3.2)
    - Regularly report estimates of the value of oil resources under different scenarios for price, start date for extraction and extraction rate, and the position of and utilization from the Petroleum Fund. (3.3)
- Publish consolidated reports on financial performance and position of public corporations and local governments. (3.4)

Improving fiscal transparency will provide the government with a greater understanding of the fiscal position and its exposure to fiscal risks, which will support effective fiscal and budget management in the face of these challenges. It will also increase the ability of the legislature, media, and civil society to provide effective oversight and scrutiny, which should improve governance and reduce opportunities for fraud and corruption. Overall, increased transparency should enhance the credibility of the government's fiscal strategy with external stakeholders.

The government already has plans to tackle many of the issues identified in this report. The Ministry of Finance is working on producing fiscal statistics on a general government basis, with support from East AFRITAC. It is also working on its first Charter of Fiscal Responsibility, due within three months of the new Parliament's first sitting, which will set out the medium-term fiscal objectives and their related reporting requirements. A newly established unit for public investment and public-private partnerships is developing the processes for ensuring that only growth enhancing projects are included in the *Public Investment Plan* and the medium-term expenditure framework.

The main body of the report assesses Uganda's practices against the standards set out in the IMF's *Fiscal Transparency Code* and makes recommendations to address the most important shortfalls. The report covers three pillars: fiscal reporting; fiscal forecasting and budgeting; and fiscal risks. In each of these sections, it assesses not only whether Uganda meets the standards set out in the Code, but also how important any shortcomings are, given Uganda's particular circumstances (Table 1).

Table 1. Uganda: Summary Assessment Against the Fiscal Transparency Code

IMPORTANCE	LEVEL OF PRACTICE		
	I. FISCAL REPORTING	II. FISCAL FORECASTING AND BUDGETING	III. FISCAL RISK ANALYSIS AND MANAGEMENT
HIGH	1.1.1 Coverage of Institutions	2.1.4 Investment Projects	3.1.2 Specific Fiscal Risks
	1.3.2 Internal Consistency	2.3.1 Fiscal Policy Objectives	3.2.4 Public-Private Partnerships
	1.4.3 Comparability of Fiscal Data	2.4.2 Supplementary Budget	3.2.6 Natural Resources
		2.4.3 Forecast Reconciliation	
MEDIUM	1.1.1 Coverage of Stocks	2.1.2 Macroeconomic Forecasts	3.1.1 Macroeconomic Risks
	1.1.3 Coverage of Flows	2.1.3 Medium-Term Budget	3.1.3 Long-Term Fiscal Sustainability Analysis
	1.1.4 Tax Expenditures	2.3.3 Public Participation	3.2.1 Budgetary Contingencies
	1.4.1 Statistical Integrity	2.4.1 Independent Evaluation	3.2.2 Asset and Liability Management
			3.2.3 Financial Sector Exposure
			3.2.7 Environmental Risks
			3.3.2 Public Corporations
			3.3.1 Sub-National Governments
LOW	1.2.1 Frequency of In-Year Reporting	2.1.1 Budget Unity	3.2.3 Guarantees
	1.2.2 Timeliness of Annual Financial Statements	2.2.1 Fiscal Legislation	
	1.2.3 Classification	2.2.2 Timeliness of Budget Documents	
	1.3.3 Historical Revisions	2.3.2 Performance Information	
	1.4.2 External Audit		

Practice under Fiscal Transparency Code

LEVEL OF PRACTICE	Not Met	Basic	Good	Advanced

Importance to Fiscal Management

LEVEL OF IMPORTANCE	LEVEL OF PRACTICE		
	High	Medium	Low

I. FISCAL REPORTING

1. **This section assesses the quality of fiscal reports against the principles of the *Fiscal Transparency Code*.** It assesses whether fiscal statistics, financial statements, and in-year and end-of-year budget-execution reports:

- Cover all institutional units engaged in fiscal activity for the entire public sector;
- Record all assets and liabilities and all revenue, expenditure, financing, and other economic flows;
- Are published in a frequent and timely manner;
- Are classified according to international standards;
- Are comparable with each other and reconcile different balances; and
- Are prepared by an independent agency (in case of statistics) or are scrutinized by an independent auditor (in case of accounts).

2. **Fiscal reports in Uganda have some good features.** Semiannual and annual budget performance reports describe and assess outturns of revenue, expenditure, and financing by economic and administrative categories, and provide detailed information on nonfinancial performance by budget entities. Semiannual reports are published with flows and stocks of debt. The Office of the Auditor General audits entities of the public sector and the audit reports are published within six months of the end of the fiscal year. The *Annual Consolidated Financial Statement* for the BCG is published as part of the *Annual Audit Report*. Monthly finance statistics are published for the BCG and annually for local governments following the IMF's *Government Finance Statistics Manual 2014* (GFSM 2014) standard. A summary list of the key published government fiscal reports is shown in Table 2.

3. **While Uganda has made progress with budget transparency by publishing a large volume of fiscal data, there is scope for rationalizing this information.** The budget transparency website of the Ministry of Finance publishes outturn data by budget unit (vote) on a quarterly basis but the data is not consolidated and reconciled with the published statistics. The *Quarterly Report on Expenditure Limits* for budgetary units does not track progressive releases for the year against the approved budget. The budget performance reports contain detailed information on financial and nonfinancial performance, but do not track in-year revisions to the budget. In addition, the latter are produced semiannually with a time lag of three months, and they do not enable monitoring of budget execution in-year.

4. **Coverage of fiscal reports is limited.** The in-year quarterly budget performance reports and the consolidated annual financial statements provide information on the BCG. Fiscal statistics are produced separately for the BCG and for local government, but the statistics are not

consolidated. None of the fiscal reports provide complete information on the fiscal operations of extra-budgetary units and public corporations.[1]

Table 2. Uganda: Published Fiscal Reports

Title	Author	Content	Frequency	Lag (months)
In-Year Reports				
Government Finance Statistics (GFS) for Budgetary Central Government	Ministry of Finance	Outturns for revenue, expenditure, and financing in accordance with GFSM 2014	Monthly	1.5
Budget Performance Report by Vote	Ministry of Finance	Outturns against budget for individual budget units	Quarterly	2
Semi-Annual Budget Performance Report	Ministry of Finance	Outturns against budget shows revenue, expenditure, and financing by economic category for the BCG and local government	Semi-annually	3–4
Quarterly Report on Expenditure Limits	Ministry of Finance	Expenditure limits for budgetary units	Quarterly	1 week
Performance of the Economy	Ministry of Finance	Summary of performance of the real, financial, fiscal, and external sectors of the economy	Monthly	4–6 weeks
Current State of the Economy	Bank of Uganda	External and domestic economic developments including fiscal developments	Quarterly	1
Debt Statistical Bulletin	Ministry of Finance	Overview of macroeconomic conditions, and external and domestic debt statistics	Semi-Annually	3
Revenue Performance Report	Uganda Revenue Authority	Tax revenue collections	Monthly	2–3
Annual Reports				
Report on Tax Exemptions	Ministry of Finance	Details include beneficiary, value, and tax categories	Annually	12
Audited Consolidated Financial Statement	Ministry of Finance/Office of Auditor General	A summary of the BCG financial accounts and Petroleum Fund	Annually	6
Annual Audit Reports of the Controller and Auditor General	Office of the Auditor General	Audit reports on Central Government, Development Projects, Local Government, and Public Authorities	Annually	6
Statistical Abstract	Uganda Bureau of Statistics	Statistical information on socio-economic sectors	Annually	15
GFS for Local Governments	Ministry of Finance	Outturns for revenue and expenditure in accordance with the GFSM 2014	Annually	9
Annual Report	Bank of Uganda	Monetary and fiscal developments; external and domestic developments and financial statements	Annually	6

Sources: Internet websites of Ministry of Finance, Uganda Revenue Authority, Office of the Auditor General, Uganda Bureau of Statistics, and Bank of Uganda.

[1] The Accountant General prepared a summary statement of performance of public corporations and state enterprises in 2014/15, but this was not published.

A. Coverage of Fiscal Reports

1.1.1. Coverage of institutions (Not Met)

5. **The public sector of Uganda is estimated to consist of 523 separate entities (Table 3).** Efforts are underway currently by the Ministry of Finance to finalize a comprehensive list of these entities by sector. The central government comprises of 122 ministries and agencies, and 63 extra-budgetary units, such as universities, hospitals and regulatory bodies. There are 306 entities in the local government sector. Uganda does not have a social security fund as the National Social Security Fund (NSSF) is a provident fund and is classified as a public corporation.[2] The wider public sector includes the central bank (Bank of Uganda) and 31 other public corporations. Most of the public corporations are nonfinancial, including the National Water and Sewage Corporation (NWSC) and Uganda Electricity Transmission Company Limited (UGETCL). The largest financial corporations, other than the Bank of Uganda, are the NSSF, Uganda Development Bank, Pride Microfinance Ltd. and Post Bank Uganda.

Table 3. Uganda: Composition of the Public Sector

	Number of Entities
Public Sector (I + II)	523
I. General Government (A+B+C)	491
A. Central Government	185
Budgetary central government	122
Extra-budgetary units	63
B. Local Government	306
C. Social Security	0
II. Public Corporation	32

Source: Ministry of Finance.

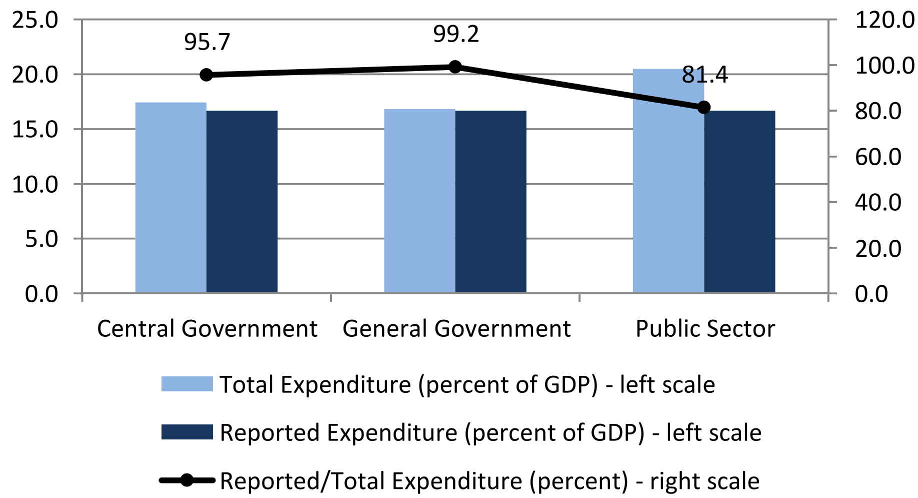
6. **Regularly produced fiscal reports cover only the BCG and local government.** The Ministry of Finance produces monthly fiscal statistics separately for the BCG and annually for local governments. These statistics do not provide information on the aforementioned 63 extra-budgetary units. Budget execution reports cover the BCG and selected extra-budgetary units (nonmarket corporations). Annual consolidated financial statements for the BCG reflect similar coverage, but add summary information for local governments. The current coverage of these fiscal reports is 95.7 percent of the central government, 99.2 percent of the general government, and about 81.4 percent of the public sector expenditures (Figure 1). In compliance with the Public Finance Management Act 2015 (PFMA), and with a view to meet the general government

[2] According to paragraphs 2.148–2.151 of the *GFSM 2014*, provident funds that act as financial intermediaries should be classified as public financial corporations. Uganda's NSSF fulfills this criterion.

fiscal reporting requirements under the East African Monetary Union Protocol, efforts are underway to expand coverage of financial statements to include extra-budgetary units, local governments, public corporations, and state enterprises. Along with other EAC partner states, Uganda has agreed to expand coverage of fiscal reports to general government, and in the longer term to the public sector.

Figure 1. Uganda: Coverage of Public Sector Institutions in Fiscal Reports

(Percent of expenditure)



Sources: Consolidated Financial Statements for financial year (FY) 2014/15. Ministry of Finance, and staff calculations.

7. **Table 4 presents estimates of the public sector accounts for FY 2014–15.** These estimates show that the BCG, extra-budgetary units, and local governments accounted for 16.8 percent of the 20.5 percent of spending in Uganda's economy as measured by GDP.[3] Data available from a variety of sources enabled the presentation of this table on a consolidated basis; selected mutual reciprocal flows from the BCG to extra-budgetary units and local governments (grants), and from the BCG to public corporations and the central bank (deposits, debt securities, and loans) have been eliminated.

Table 4. Uganda: Summary Accounts of the Public Sector, 2014–15

(Percent of GDP**)**

	BCG	EBUs	Local Gov.	Consol.	General Gov.	Public Corp.	Central Bank	Consol.	Public Sector
Transactions									
Revenue	14.5	1.5	3.3	-4.6	14.7	3.7	0.2	0.0	18.6
Expenditure	16.7	1.5	3.2	-4.6	16.8	3.2	0.4	0.0	20.5
Balance	-2.1	0.0	0.1	0.0	-2.1	0.5	-0.2	0.0	-1.9

[3] GDP numbers used in the report is GDP on an expenditure basis at market prices, for FY 2014/15, 74,565 bn UGX.

	BCG	EBUs	Local Gov.	Consol.	General Gov.	Public Corp.	Central Bank	Consol.	Public Sector
Assets	99.8	2.7	2.1	0.0	104.6	15.0	17.1	-15.2	121.5
Nonfinancial	90.2	0.5	1.9	0.0	92.7	5.5	0.3	0.0	98.5
Financial	9.6	2.2	0.2	0.0	11.9	9.5	16.8	-15.2	22.9
Liabilities	60.1	0.4	0.0	0.0	60.5	15.0	17.5	-15.2	77.7
Net financial worth	-50.6	1.8	0.2	0.0	-48.6	-5.5	-0.7	0.0	-54.8
Net worth	39.7	2.3	2.1	0.0	44.1	0.0	-0.4	0.0	43.7
Net worth excluding equity	34.5	2.1	2.1	0.0	38.8	4.9	4.6	0.0	48.3

Sources: Staff estimates based on Uganda's Consolidated Financial Statement for FY 2014/15; Ministry of Finance; individual annual audited annual financial statements of the 16 largest public corporations, including the NSSF; and the Bank of Uganda.

8. **The summary accounts show that expanding institutional coverage of fiscal reports to cover the public sector serves to reduce the deficit, but to increase assets and liabilities.** Combined, the deficit for the BCG and local governments (the two subsectors covered regularly in fiscal reports) was around 2.1 percent of GDP. However, the deficit declines to 1.9 percent of GDP for the full public sector due to consolidation. On the other hand, the BCG and local governments combine to account for 60.5 percent of GDP in liabilities, but liabilities rise to 77.7 percent of GDP when the entire public sector is measured. This magnitude of liabilities is more than offset by public sector assets, which are 121.8 percent of GDP—producing net worth of 48.3 percent of GDP for the public sector.

1.1.2. Coverage of stocks (Basic)

9. **Uganda's fiscal reports reflect the stock of currency and deposit assets and of all relevant debt instruments for the BCG.** Data on the government's cash balances and other financial assets are available in the consolidated financial statements and Bank of Uganda reports. Debt data are published semi-annually by the Ministry of Finance in the *Debt Statistical Bulletin*. The annual financial statements provide consolidated information on the budget units' flow (revenue and expenditure) and stock (assets and liabilities) accounts.

10. **However, there is no reporting of a balance sheet that provides a complete picture of the government's financial position.** The main current gaps include:

- Pension liabilities: International statistical and accounting standards require that actuarial-based estimates of civil service pension liabilities should be recognized on the government's balance sheet. Both BCG reports exclude these types of pension liabilities from the balance sheet, and they are estimated at 21.8 percent of GDP.[4]

- The stock of nonfinancial assets, including fixed assets, inventories, non-produced assets, and valuables are not reported. This is not unusual since many countries continue to struggle with estimating the stock of their nonfinancial assets. For example, fixed assets were estimated for budgetary central and local government using a simplified perpetual inventory method and were valued at about 26 percent of GDP. In addition, subsoil assets (oil and natural gas—non-produced assets) were estimated at about 55 percent of GDP.[5]
- Liabilities related to public-private partnerships (PPPs) are often important, yet excluded from government balance sheets. International accounting standards require that PPP assets and liabilities included in government balance sheets. Consequently, they are included in Table 5. PPP liabilities are estimated at about 6.6 percent of Uganda's GDP (Table 15). However, further analysis of individual PPP contracts is needed to assess whether some of these PPP-related liabilities entail contingent liabilities.
- Public corporations account for about 32 percent of the Government of Uganda's assets and liabilities on an unconsolidated basis (Tables 4 and 5). This estimate, which is not reflected in fiscal reports, was derived by tabulating the balance sheets of 16 of the largest public corporations that appear in annual audited financial reports, including the Bank of Uganda and the NSSF.

11. The estimate of the balance sheet of Uganda's public sector in Table 5 provides a more complete picture of its financial position. In addition to reflecting the missing elements discussed above, the table provides a broad view of the impact of including all of the assets and liabilities of the entire public sector in the balance sheet. Specifically, without the inclusion of BCG fixed, PPP, subsoil assets, and local government fixed assets, the total value of nonfinancial assets for the public sector would drop from 92.7 percent to 6.6 percent of GDP, and total assets of the public sector would drop from 121.8 percent to 34.5 percent of GDP. Similarly, the exclusion of the BCG and Bank of Uganda pension liabilities from their respective balance sheets would result in total liabilities for the public sector dropping from 77.7 percent to 44.9 percent of GDP. By filling these gaps, a more complete picture is available of Uganda's public sector financial position; i.e., net worth is presented at 48.3 percent of GDP. Figure 2 presents a graphical image of balance sheet coverage gaps by subsectors of the public sector.

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[4] *Republic of Uganda: Economic Update 4 – Reducing Old Age and Economic Vulnerabilities: Why Uganda should Improve its Pension System*, World Bank June, 2014. This figure is the government's estimated accrued liabilities to members of the public sector pension scheme, which measures the present value of the benefit promises made to date.

[5] The estimate for the value of existing Ugandan sub-soil assets was taken from a report prepared by Daniel et al, *Uganda: Fiscal Regimes for Extractive Industries: Next Phase*, IMF (June 2015, p. 47). It estimated revenue flows to the Government of Uganda from sub-soil assets at USD 12.3 bn.

Table 5. Uganda: Estimated Public Sector Balance Sheet, June 30, 2015

(Percent of GDP)

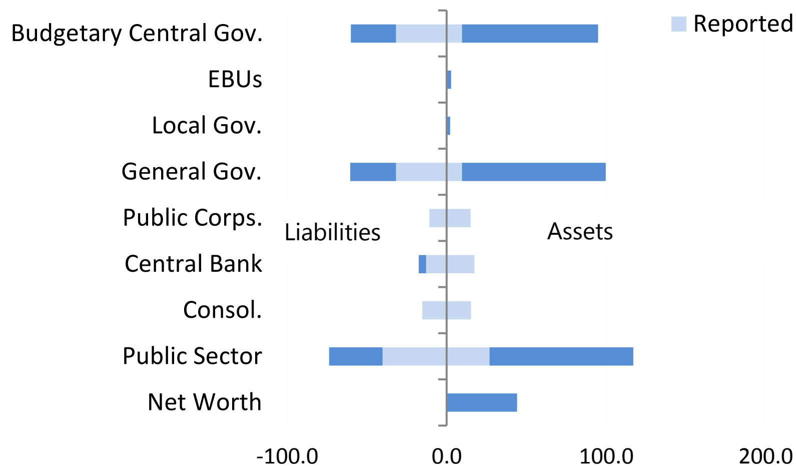
	BCG	EBUs	Local Gov.	Consol.	General Gov.	Public Corp.	Central Bank	Consol.	Public Sector
Assets	99.8	2.7	2.1	0.0	104.6	15.0	17.5	-15.2	121.8
Nonfinancial Assets	90.2	0.5	1.9	0.0	92.7	5.5	0.3	0.0	98.5
o/w Fixed assets not reported	24.0	0.0	1.9	0.0	26.0	0.0	0.0	0.0	26.0
o/w Subsoil assets not reported	54.7	0.0	0.0	0.0	54.7	0.0	0.0	0.0	54.7
o/w PPP assets	6.6	0.0	0.0	0.0	6.6	0.0	0.0	0.0	6.6
Financial Assets	9.6	2.2	0.2	0.0	11.9	9.5	17.2	-15.2	23.3
Special Drawing Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.3
Currency and deposits	2.1	0.0	0.1	0.0	2.3	1.0	8.4	-2.1	9.6
Debt securities	0.0	0.0	0.0	0.0	0.0	5.2	1.4	-5.6	1.0
Pension Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.4
Loans	2.1	0.4	0.0	0.0	2.5	0.7	1.2	-2.3	2.1
Equity	5.2	0.2	0.0	0.0	5.4	1.6	5.2	-5.2	7.1
IPSIG[1]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.1	1.5	0.0	0.0	1.7	0.9	0.3	0.0	2.8
Liabilities	60.1	0.4	0.0	0.0	60.5	15.0	17.5	-15.2	77.7
Reported in Financial Statistics	31.7	0.4	0.0	0.0	32.0	10.9	12.8	-10.1	45.8
Special Drawing Rights	0.0	0.0	0.0	0.0	0.0	0.0	1.1	0.0	1.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.3	11.1	-2.1	9.3
Debt securities	9.5	0.0	0.0	0.0	9.5	0.0	0.0	-5.6	3.9
Pension Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.3
Loans	20.3	0.0	0.0	0.0	20.3	1.4	0.3	-2.3	19.6
Equity	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.9
IPSG[1]	0.3	0.0	0.0	0.0	0.3	6.9	0.0	0.0	7.2
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	1.6	0.3	0.0	0.0	1.9	1.4	0.1	0.0	3.4
Not reported in financial statistics	28.4	0.0	0.0	0.0	28.4	4.9	4.6	-5.2	32.8
Pension liabilities	21.8	0.0	0.0	0.0	21.8	0.0	0.0	0.0	21.8
PPP liabilities	6.6	0.0	0.0	0.0	6.6	0.0	0.0	0.0	6.6
Equity	0.0	0.0	0.0	0.0	0.0	4.9	4.6	-5.2	4.4
Net financial worth	-50.6	1.8	0.2	0.0	-48.6	-5.5	-0.3	0.0	-54.4
Net worth	39.7	2.3	2.1	0.0	44.1	0.0	0.0	0.0	44.1
Net worth, excluding equity	34.5	2.1	2.1	0.0	38.8	4.9	4.6	0.0	48.3

Sources: Uganda's Consolidated Financial Statements for FY 2014/15; Ministry of Finance; annual audited financial reports of public corporations; and the Bank of Uganda. PPP assets and liabilities have been estimated based on the World Bank's PPP partnership initiative for ongoing projects, some of which may be contingent.

[1] Insurance, pensions, and standardized guarantee schemes.

Figure 2. Uganda: Coverage of Public Sector Balance Sheet, June 30, 2015

(Percent of GDP)



Source: Staff Estimates.

Note: Public corporations are not reported on a consolidated basis.

1.1.3 Coverage of flows (Basic)

12. Fiscal reports cover cash revenue, expenditures, and financing. The budget execution reports record actual transactions in receipts and expenditures on a modified cash basis. Revenue includes tax and nontax revenue, but does not include local government own-source revenue, which is not sizeable. BCG transfers to extra-budgetary units, local governments, and projects outside of Uganda's Integrated Financial Management System (IFMS), are recorded as expenditure when the funds are disbursed. For FY 2014/15, transfers to these entities were estimated at about 4.6 percent of GDP (Table 4). Other economic flows resulting from holding gains/losses or changes in the volume of assets and liabilities are not fully recorded in fiscal reports. Certain accrual-based flows are omitted and could affect the fiscal balance significantly. Table 6 illustrates the impact of the most relevant of these flows—payment arrears. Incorporating these transactions would raise the FY 2014/15 deficit from 2.1 to 3.6 percent of GDP.

Table 6. Uganda: Cash to Accrual Adjustment, June 2015

	Billions of UGX	Percent of GDP
Cash fiscal balance	-1,602.5	-2.1
Accrued expenditures		
Arrears - Ministries	393.8	0.5
Arrears - Agencies	472.6	0.6
Arrears - Pensions	216.7	0.3
Arrears - Other	2.3	0.0
Accrual fiscal balance	-2,687.9	-3.6

Source: Uganda's Consolidated Financial Statement for FY 2014/15.

1.1.4 Coverage of tax expenditures (Not Met)

13. Published reports on tax exemptions covers only a small proportion of total estimated tax expenditures. The annual report submitted to Parliament and published on the Ministry of Finance website covers only the tax exemptions issued by the Ministry of Finance.[6] These exemptions form only 2.5 percent of the total estimated tax expenditures in 2014/15. The Uganda Revenue Authority produces annually, for internal circulation, a *Report on Revenue Foregone Due to Tax Exemptions/Incentives* that is more comprehensive and provides estimates by sector and policy area.[7] This report, however, is not published. The annual value of revenue foregone from tax exemptions is estimated at 1.2 percent of GDP for FY 2014/15 (Table 7).

Table 7. Uganda: Value of Tax Expenditures
(Billion UGX)

	2011/12	2012/13	2013/14	2014/15
Exempted Income	70.5	142.6	150.6	101.9
Value Added Tax	607.5	398	544.5	115
International Trade	434.2	570.8	584.2	666.4
Total	**1112.2**	**1111.5**	**1279.3**	**883.4**
o/w Published	11.6	9	16.5	22.6
Share of total revenue (%)	17.9	15.5	15.9	9.1
Share of GDP (%)	1.9	1.7	1.9	1.2

Source: Uganda Revenue Authority and staff calculations.

14. The law requires publication of tax exemptions. Article 152 (2) of the Constitution requires periodic submission of reports on tax expenditures to the Parliament. The PFMA 2015 has defined the frequency of this reporting and requires quarterly reports on tax exemptions to be submitted to Parliament. The annual report produced by the Uganda Revenue Authority provides a broader basis for meeting this requirement. Publishing more comprehensive tax expenditure reports will enhance transparency and improve the understanding of tax incentive schemes and their impact on the Ugandan economy.

B. Frequency and Timeliness of Fiscal Reporting

1.2.1. Frequency of in-year reporting (Good)

15. In-year fiscal reports are produced in a regular and timely manner. The Ministry of Finance publishes monthly fiscal statistics on its website for the BCG within four to six weeks of the reporting period. Budget execution is reported through the *Semi-Annual Budget Performance*

[6] http://www.finance.go.ug.

[7] This report uses the revenue foregone method for calculating the value of tax expenditures and is based on URA e-Tax returns and ASYCUDA database.

Report that is published with a lag of around one quarter, and contains detailed information on financial and nonfinancial performance at sector and budget unit levels. Quarterly budget execution data are published for each budget unit on the Uganda Budget Information website with a lag of six to eight weeks, but these reports are not consolidated. The Ministry of Finance has started publishing semiannually a new *Debt Statistical Bulletin* covering public sector debt and private sector external debt.[8] The information published by budget unit on quarterly expenditure limits set by the Ministry of Finance could be further improved by including information on cumulative limits against total appropriations for the year.

1.2.2. Timeliness of annual financial statements (Advanced)

16. The audit report on the consolidated annual financial statements of the BCG has, for the first time, been submitted to Parliament and published within six months of the end of the year. This is a requirement of the PFMA, and is a significant improvement over previous years when the audited statements were made public nine months after the end of the year. The annual audit reports for the central government consolidated annual financial statements as well as reports on individual financial statements of central government institutions are published on the website of the Office of Auditor General. The audited annual financial statements, however, are not appended to the audit reports published on the website for FY 2014/15, nor are they published in the Ministry of Finance website.

C. Quality of Fiscal Reports

1.3.1. Classification (Good)

17. Fiscal reports in Uganda include administrative, economic, and functional classifications. The administrative classification is based on the existing accountability and budget administration arrangements within government. The economic classification is broadly aligned with GFSM 2014. The functional analysis set out in the Classification of Functions of Government (COFOG) has been adjusted to match the structure of the *National Development Plan*. The IFMS chart of accounts and bridging tables produce reports that are consistent with the GFSM and COFOG standards. The reporting structure is harmonized across budget and accounting systems, and has been implemented across the BCG, local government, and some extra-budgetary units since March 2011. Importantly, Ministry of Finance is developing a new reporting structure for ministries as part of its planned adoption of a program based approach to budgeting.

1.3.2. Internal consistency (Basic)

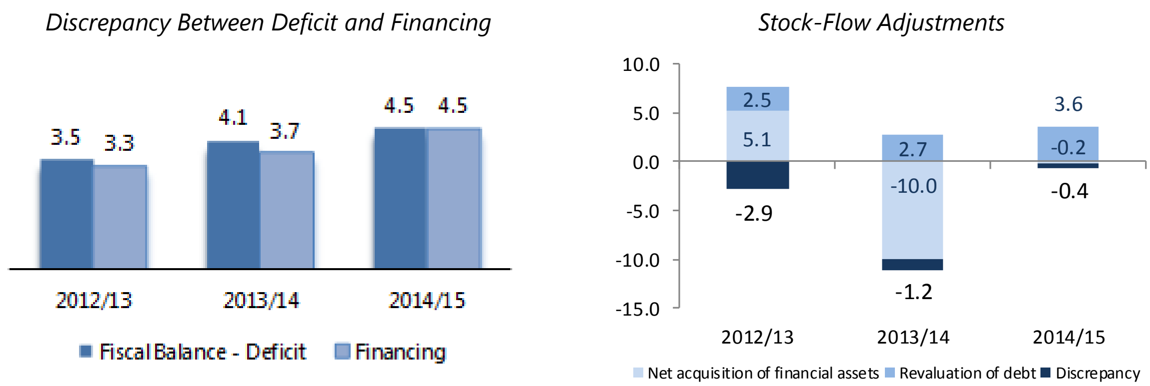
18. Fiscal reports include one of the reconciliations required by the *Fiscal Transparency Code*—between the fiscal balance and financing. This is shown in the annual budget

[8] There are plans to accelerate to quarterly the publishing of this information.

performance reports and annual fiscal statistics, and an item labeled "errors and omissions" is used to account for the differences between overall balance and financing. These discrepancies have been explained as differences in timing of recording tax revenue, grants, and expenditures. Estimates suggest that from FY 2012/13 to 2014/15, these discrepancies averaged about 0.19 percent of GDP (left-hand side of Figure 3).

Figure 3. Uganda: Internal Consistency Reconciliations, 2014–15

(Percent of GDP)



Sources: Annual Budget Performance Reports, Draft Budget Estimates 2016/17; Consolidated Financial Statements FY 2014/15; Staff Estimates.

Note: Debt revaluation is estimated by applying a weighted average of exchange rate changes to debt denominated in foreign currencies.

19. The Semi-Annual Debt Statistical Bulletin provides information on debt issuance (flow) and the debt level (stock); however, there is no reconciliation between the two measures. Publishing such a reconciliation and performing systematic internal consistency checks would improve fiscal transparency and help provide assurance that the government is not engaged in off-budget spending. The right-hand side of Figure 3 shows a reconciliation of the stock-flow adjustment, which is the difference between changes in the level of debt (stock) and the deficit (flow) (both reported in annual consolidated financial statements). The stock-flow adjustment factors include the net acquisition of financial assets, debt revaluation due to exchange rate fluctuations, and the remainder of the adjustment falls into a statistical discrepancy. For FY 2012/13 to FY 2014/15, the stock-flow adjustment averaged -0.2 percent of GDP, and is explained by the net acquisition of financial assets (-1.7 percent of GDP); revaluation of the debt (3.0 percent of GDP); and the statistical discrepancy (-1.5 percent of GDP). This statistical discrepancy is significant and should be investigated and explained.

1.3.3. Historical revisions (Not Met)

20. Revisions to fiscal statistics are not reported or explained, although revisions do not appear to be significant. The *Semi-Annual Budget Performance Report* and the *Statistical Abstract* provide outturns for the previous year and provisional statistics for the current period. These statistics are updated as final and appear as new values in the subsequent year's editions of the reports without any comparison or explanation. However, the revisions have generally not been significant—over the last five years, average annual revisions to the fiscal balance were only 0.05 percent of GDP. No revisions are provided for the data submitted to the IMF's *Government Finance Statistics Yearbook* (GFSY).

21. On-going reforms for improving the coverage and basis of accounting may have a material impact on key fiscal aggregates. The planned changes to sectorization of institutional units for government fiscal statistics reporting may require revisions to be applied retrospectively to historical fiscal data along with clear explanations for revisions. The Ministry of Finance should review and revise its Release and Revision Policy (2014) to ensure that revisions to fiscal statistics are executed in a transparent manner and in accordance with international guidelines.[9]

D. Integrity of Fiscal Reports

1.4.1. Statistical integrity (Good)

22. Fiscal statistics are produced and disseminated in accordance with international standards. Fiscal statistics are published by the Ministry of Finance for the BCG and annually for local governments following the *GFSM 2014* framework. These data are also submitted for publication in the IMF's *GFSY*. A Ministry of Finance-led GFS Technical Working Group is developing *GFSM 2014* reporting. The compilation and dissemination of GFS is, however, not by an independent agency, but by the Ministry of Finance under a memorandum of understanding (2010) with the Uganda Bureau of Statistics, which monitors the compilation process and estimates closely.

1.4.2. External audit (Good)

23. The annual accounts of all public entities are independently audited by the Office of the Auditor General. The annual audit reports have been presented to Parliament as prescribed in the National Audit Act (2008) within nine months of the end of the fiscal year and for FY 2014/15 within six months as required under the PFMA 2015. Audit reports are published simultaneously on the Office of the Auditor General's website. The Constitution and the National Audit Act provide for the independence of the Auditor General. The institution is widely seen as credible and applies international standards.[10] There has been a steady improvement in unqualified audit opinions over the years, and the FY 2014/15 audit of the BCG and statutory corporations resulted in an unqualified opinion for 79 percent of audited entities (Figure 4).

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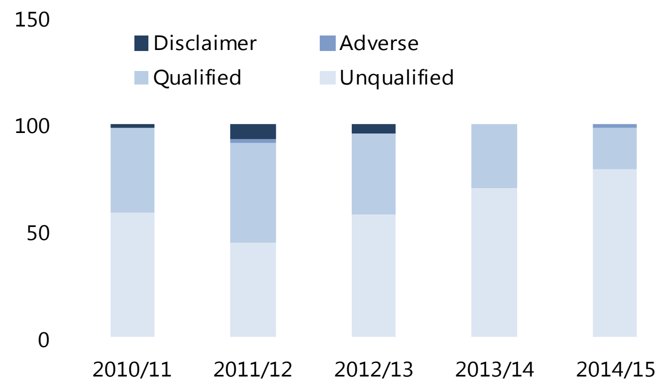
[9] Ministry of Finance's revision policy is available at: http://www.finance.go.ug/index.php?option=com_docman&Itemid=162.

[10] Open Budget Survey 2015 and Public Financial Management Performance Report 2012.

Figure 4. Uganda: Audit Opinions for Central Government

(Percent)



Source: Annual Report of the Auditor General, 2014–15.

1.4.3. Comparability of fiscal data (Basic)

24. Budget execution reports are prepared on the same basis and institutional coverage as the budget, but they are not reconciled with fiscal statistics or annual financial statements. The reports present and compare final outturns by administrative, economic, and functional classification, but they do not reflect the in-year revisions made to the budget. The monthly GFS reports that are produced for the BCG are consistent with the budget and the outturn, but these fiscal reports are not reconciled. The consolidated financial statement is prepared on the same basis as the budget, but does not provide a clear reconciliation with budget outturns or fiscal statistics. However, the on-going initiative to produce general government financial statements as required under the PFMA 2015 and as envisaged under the East African Monetary Union Protocol will require clear reconciliations between budget outturns, annual financial statements, and fiscal statistics to provide assurance of the integrity of fiscal reports.

E. Conclusions and Recommendations

25. Table 8 summarizes the assessment of Uganda's fiscal reporting practices. It shows that Uganda meets at least basic practice in nine of the twelve principles of the *Fiscal Transparency Code* for fiscal reporting. The standard of advanced practice is met for timeliness of annual financial statements; while frequency of in-year reporting, classification of information, statistical integrity, and external audit are scored as good practice. However, there is room for improvement in several areas, particularly in the coverage of institutions and tax expenditures and reporting of stocks—including nonfinancial assets and liabilities relating to pensions. The integrity of reports could be enhanced by publishing reconciliations between stocks and flows, and improving the comparability of statistics that are provided in various fiscal reports.

26. The new Public Financial Management Act provides a good foundation for addressing some of these concerns. The Act defines the frequency and coverage of in-year fiscal reports, and has amended the timelines for submission and audit of financial statements. In addition, Uganda's current PFM Reform Strategy (2014–18)[11] includes components related to enhancing the monitoring and oversight across government entities: expanding the coverage of the IFMS to extra-budgetary units, donor funded projects, and local governments; integrating the IFMS and the budgeting system to improve the timeliness and integrity of fiscal reports; improving the monitoring and reporting of arrears and the accounting and reporting of assets; extending the coverage of the treasury single account arrangements; and, in the medium term, adopting accrual accounting standards. In view of the EAMU Protocol requirements, a project to produce fiscal statistics on a general government basis is also in progress.

27. This evaluation makes the following recommendations to further enhance the coverage, quality, and integrity of fiscal reports:

- Expand data collection for extra-budgetary units and local governments to develop fiscal reporting on a general government basis in line with EAC requirements. (1.1)
- Publish comprehensive reports on tax expenditures and the annual financial statements on the Ministry of Finance website. (1.2)
- Incorporate balance sheet data into fiscal reporting, and progressively expand coverage to include missing assets and liabilities, such as actuarially estimated public pension liabilities, and nonfinancial assets. (1.3)
- Reconcile fiscal data to enhance comparability of annual financial statements with budget outturns and fiscal statistics. (1.4)

[11] Uganda PFM Reform Strategy 2014–18, Ministry of Finance.

Table 8. Summary Assessment of Uganda's Fiscal Reporting

	Principle	Assessment	Importance	Rec.
1.1.1	Coverage of Institutions	**Not Met:** Fiscal statistics cover only budgetary central and local governments. In-year fiscal reports and the consolidated financial statements cover only BCG.	**High:** EBUs and public corporations account for 5.1% of public sector expenditure.	1.1
1.1.2	Coverage of Stocks	**Basic:** Debt is reported by Ministry of Finance and cash by the Bank of Uganda in fragmented form. Other financial assets and liabilities not reported.	**Medium:** Excludes nonfinancial assets of 80.7% of GDP; and pension liabilities of 22% of GDP.	1.3
1.1.3	Coverage of Flows	**Basic:** Key fiscal reports cover cash revenues and financing near-accrual expenditure. Separate cash and accrual data not published.	**Medium:** Excluded accrual flows of at least 1.4% of GDP.	
1.1.4	Coverage of Tax Expenditures	**Not Met:** Publishes annual estimates of discretionary tax expenditure by tax category, but these estimates are not complete.	**Medium:** Tax expenditures estimated at 1.2% of GDP.	1.2
1.2.1	Frequency of In-Year Reporting	**Good:** Monthly fiscal statistics published within two months. Quarterly budget execution reports for each budget unit and semiannually for budgetary central government with a lag of a quarter.	**Low:** At this stage, the priority should be to rationalize content and improve timelines.	
1.2.2	Timeliness of Annual Financial Statements	**Advanced:** Audited financial statements published within nine months of the end of FY . Beginning with FY 2014/15, statements been published within six months of the end of FY .	**Low:** Timely publication of financial statements informs budget preparation and enhances transparency.	
1.3.1	Classification	**Good:** Fiscal reports present information using administrative, economic and functional classifications.	**Low:** At this stage, the priority should be to improve the quality of existing information.	
1.3.2	Internal Consistency	**Basic:** Fiscal reports only reconcile the fiscal balance and financing.	**High:** Unexplained stock-flow adjustments ranges from -2.9% to -0.4% of GDP for FY 2012/13-2014/15.	
1.3.3	Historical Revisions	**Not met:** There is no explanation provided for revisions made to fiscal statistics.	**Low:** Revisions to fiscal balance averaged 0.05% of GDP since FY 2010/11.	
1.4.1	Statistical Integrity	**Good:** Fiscal statistics compiled and disseminated by the Ministry of Finance following *GFSM 2014* standard for budgetary central and local governments.	**Medium:** EAMU Protocol requires the production of a full set of GFS statements.	
1.4.2	External Audit	**Good:** Annual audit reports presented to Parliament within six months and published. Financial statements reflected a qualified opinion.	**Low:** Auditor is independent and receives positive external assessments.	
1.4.3	Comparability of Fiscal Data	**Basic:** Semiannual budget execution reports prepared on the same basis as the budget, but reports are not reconciled with either the consolidated financial statement or government finance statistics.	**High:** A move toward general government reporting will require improved comparability of information in fiscal reports.	1.4

II. FISCAL FORECASTING AND BUDGETING

28. This section assesses the quality of fiscal forecasting and budgeting practices relative to standards set by the Code. It focuses on four main areas:

- The comprehensiveness of the budget and associated documentation;
- The orderliness and timeliness of the budget process;
- The policy orientation of budget documentation; and
- The credibility of the fiscal forecasts and budget proposals.

29. Uganda's fiscal forecasting and budgeting practices meet good or advanced practices in 6 out of the 12 indicators with 3 indicators scoring basic and 3 not met. The annual budget incorporates all gross revenues, expenditures and financing for central government entities while the legal framework provides a sound basis for the budget process. Regular medium-term macroeconomic and fiscal forecasts are produced and the medium-term expenditure framework incorporates outturns for two preceding years at an aggregate level and projections for revenues, expenditures, and financing on a budget unit basis. This information is provided to Parliament and published in a full set of budget documents (Table 9), three months prior to the end of the financial year and approved one month before the start of the fiscal year as required by the PFMA.

30. Uganda has an orderly budget process, which allows for policies to be discussed and the budget structure enables a good level of performance orientation. However, a detailed account of the implications of the budget for different demographic groups is not provided, and the performance objectives and targets for ministries are only specified and monitored at the output level and have limited influence on policy-making. A summary of the implications of budget policy decisions is not published. The provision for a Charter for Fiscal Responsibility under the new PFMA, should help to strengthen policy guidance by clearly stating and requiring reporting against specific fiscal objectives.

31. There is room to improve the credibility of fiscal forecasting and the budget planning process. Uganda performs relatively well in producing annual and medium-term revenue projections as compared to regional peers. However, variations between approved budgets and outturns on the expenditure side are significant due to frequent budget reallocations, and supplementary budgets. Unapproved expenditure and the accumulation of expenditure arrears point to weaknesses in expenditure planning and costing. The government's forecasts are presented without any independent evaluation. Furthermore, the changes and updates made to previous forecasts are not documented and the effect of new policies on public finances are not discussed or published. While the PFMA now provides for parliamentary approval of total obligations under multi-annual investment projects, weaknesses in project appraisal, documentation, and implementation, impairs the credibility of the process.

Table 9. Uganda: Published Fiscal Forecasting and Budget Documents

Document	Content	Timing
Background to the Budget Report	The theme and the overall considerations underpinning the budget.	November
National Budget Framework Paper	Summary of medium-term macroeconomic and fiscal forecasts (Section 9(5), PFMA).	December
Ministerial Policy Statements	Expenditure and revenue proposals by ministries presented to Parliament. (Section 13 (13), PFMA).	March
Fiscal and Economic Update	A macroeconomic assessment of the key economic indicators and the medium term outlook (Section 4, PFMA).	May
Budget Speech	Summarizes budget plans and new policies.	June
Finance Act	Enactment of new revenue measures and amendments to other related laws (Section 8, PFMA).	June
Appropriation Act	Approves budget-unit wise expenditures for recurrent and development purposes (Section 14, PFMA).	June
Citizen's Budget	Summary of the approved budget designed to be accessible to citizens.	July
Budget Performance Report	Analysis of budget execution and illustration of performance of resources and expenditures; overview of sector and budget unit level physical achievements (Section 18, PFMA).	Semi annually
Approved Budget Estimates	The annual expenditure and revenue details as approved by Parliament (Vol. I Central Government; Vol. II Local Government and Vol. III Public Corporations)	July
Public Investment Plan	Investment project profiles for central government budget units including government and donor funding (Section 13, PFMA).	Prepared every five years and updated annually
Debt Sustainability Report	An assessment of the current and future debt levels and impact to the economy.	November
Pre-Election Economic and Fiscal Update	Budgeted and actual election related spending, half year macroeconomic and fiscal performance (Section 19, PFMA).	Prior to each election

Source: Ministry of Finance.

A. Comprehensiveness

2.1.1. Budget unity (Good)

32. Domestic revenues, expenditures, and financing of central and local government entities are budgeted and authorized by Parliament on a gross basis. The budget estimates include nontax revenues collected by ministries, departments, and agencies. Own revenues contribute only 2 percent of total revenues most of which is in the annual budget. The summary budget by economic item identifies transfers to other government units and contributions to autonomous institutions and extra-budgetary units. Expenditure for most externally-sourced funds is authorized as part of the annual budget. Off-budget donor funding for projects is reported at an aggregate level for the budget year and forecast for the medium term, in Annex VII of the *Budget Framework Paper* is decreasing from 4.3 percent of the overall budget in FY 2014/15 to a projected low of 1.8 percent in FY 2016/17.

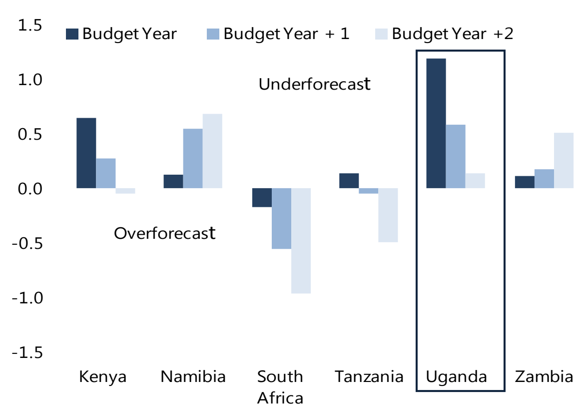
33. Multiple documents are submitted as part of the annual and medium-term budget for Uganda. Table 9 lists key budget documents produced as part of the budget documentation. Budget documents include a high level of detail about the composition of expenditure and the outputs over the medium term (three volumes of *Budget Estimates*, 1,000 pages each; *Public Investment Plan*, 1,410 pages; *Budget Framework Paper*, 435 pages; and *Ministerial Policy Statements*, averaging 500 pages each). Although these documents contain information required by the PFMA, they could be streamlined by reducing overlaps and providing more concise, focused, and performance-based information.[12]

2.1.2. Macroeconomic forecasts (Good)

34. Budget documentation provides forecasts of the main macroeconomic variables and their underlying assumptions. The *Budget Framework Paper* describes broad assumptions, justifications and outlook for the key macroeconomic variables on GDP growth, inflation, fiscal policy, monetary policy, and external trade. These are not, however, broken down by their respective components, for example, illustrating different sectoral growth drivers. This analysis is only produced by the Uganda Bureau of Statistics on an ex-post basis and is used for information purposes in the *Background to the Budget*. Moving towards an advanced score would involve basing projections using this level of detail. producing

35. Real GDP forecasts for the budget year have been less accurate when compared with peers due to under forecasting. When compared to selected African countries between 2000–10, the average forecast error for the budget year is high at 1 percentage point over a 10-year period (Figure 5). Trends in forecast errors have reversed, since FY 2011/12, with over forecasting becoming more prominent. Forecasts have remained around the target level of 7 percent but growth has averaged 4.1 percent over the period (Figure 6).

Figure 5. Uganda: Average Forecast Errors for Real GDP Growth 2000–10
(Percent)

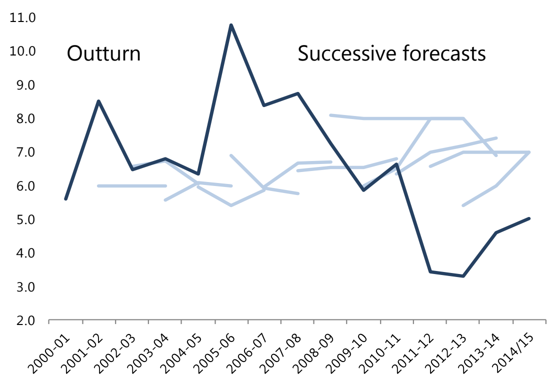


Source: Staff calculations based on National Budget Framework Papers.

[12] Various IMF AFRITAC East missions have made recommendations and suggested formats for streamlining the budget documentation.

Figure 6. Uganda: Forecast and Outturns for Real GDP Growth

(Percent)



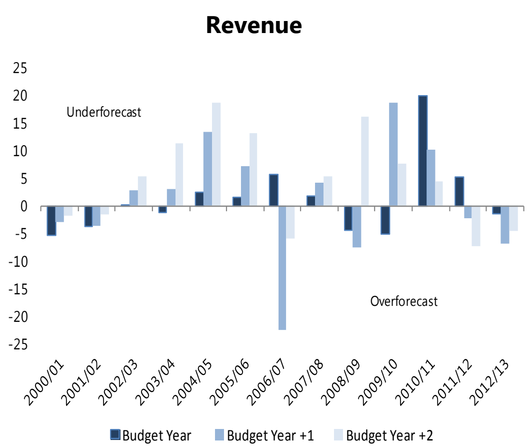
Source: Staff calculations based on National Budget Framework Papers.

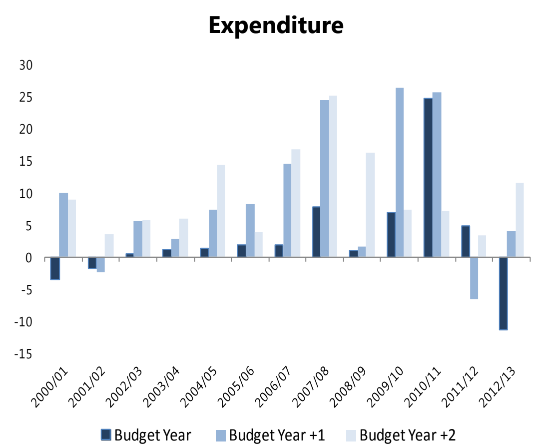
2.1.3. Medium-term budget framework (Good)

36. Budget documents include outturns of two preceding years, the annual budget, and medium-term projections of aggregate revenues, expenditures, and financing. Uganda's medium-term budget framework was initiated in 1992 and is based on three-year fiscal projections. The aggregate recurrent and development expenditure plan is set out initially in the *Budget Framework Paper*. It provides aggregate revenue, expenditure and financing projections for the current financial year, the budget year and the successive two forward years. While previous budget estimates have included detailed outturns for two preceding years, the FY 2016/17 budget does not. Uganda's revenue forecasts have generally been cautious and the forecast errors are relatively low for the budget and the two outer years. These have averaged 1.1, 1.0, and 4.6 percentage points for the budget and two subsequent outer years for the period FY 2000/01 to FY 2012/13 (Figure 7).

Figure 7. Uganda: Domestic Revenue and Expenditure Forecast Errors, FY 2000–13

(Percentage points)



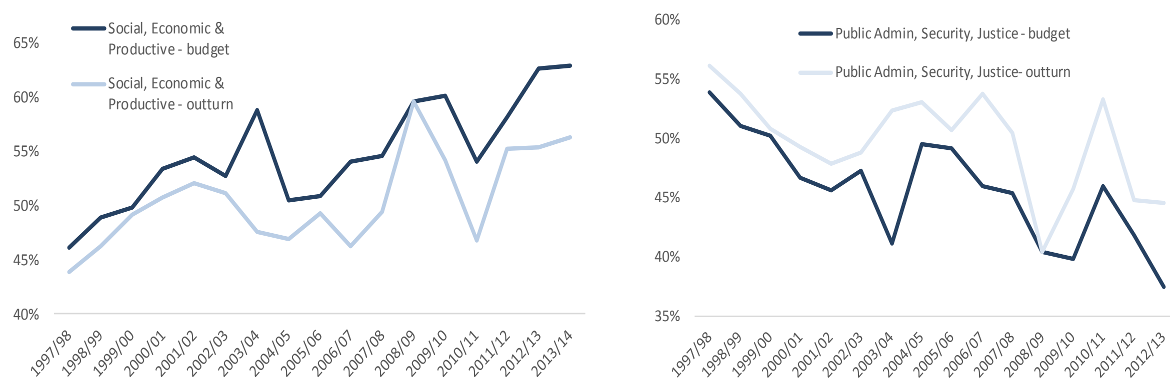


Source: Approved Budget Estimates.

37. The credibility of the medium-term budget framework has been undermined by annual revisions and forward estimates of expenditure that do not often inform future annual budgets. Expenditure forecast errors reflect significant variations between multi-year projections and annual outturns. This amounts to 2.7, 9.4, and 10 percentage points for the budget and two outer years (Figure 7). Multi-year budgets have been predominantly optimistic over the twelve-year period, suggesting that projections are based on meeting medium-term fiscal targets rather than expressing bottom-up expenditure needs over the period, as discussed in Section 2.1.4.

38. A detailed analysis of outturn trends can help reveal budget reallocations and enable corrective action in the ensuing budget process. Figure 8 shows that from the late 1990s, reallocations have occurred from the social and economic sectors to public administration, security, and justice sectors. On average, over this period, these shares have deviated by 4 percent from the former group of sectors to the latter.

Figure 8. Uganda: Social, Economic, and Productive Sectors – Share of Budget v. Share of Outturns



Sources: Approved budget MTEFs and Budget Performance Reports, Ministry of Finance.

2.1.4. Investment projects (Not met)

39. The Public Investment Plan does not accurately reflect the total obligations for multi-annual investment. The top down medium-term expenditure framework constraints dictate multi-year development budget ceilings for central government budget units, who then budget for individual projects within this constraint. These multi-year projections neither constitute total obligations nor are consistent with the annual outturns. Figure 9 illustrates the magnitude of the forecast error between the *Public Investment Plan* and actual outturns for a selected group of the largest multi-year projects. The funding to Karuma Hydroelectric Dam experienced variances of up to over 1000 percent over the medium as shown in Table 10. A clause under the PFMA provides for explicit approval by Parliament of multi-annual commitments and requires reporting of total obligations for investment projects. This requirement is expected to compel MDAs to report information on the total cost of projects in the budget

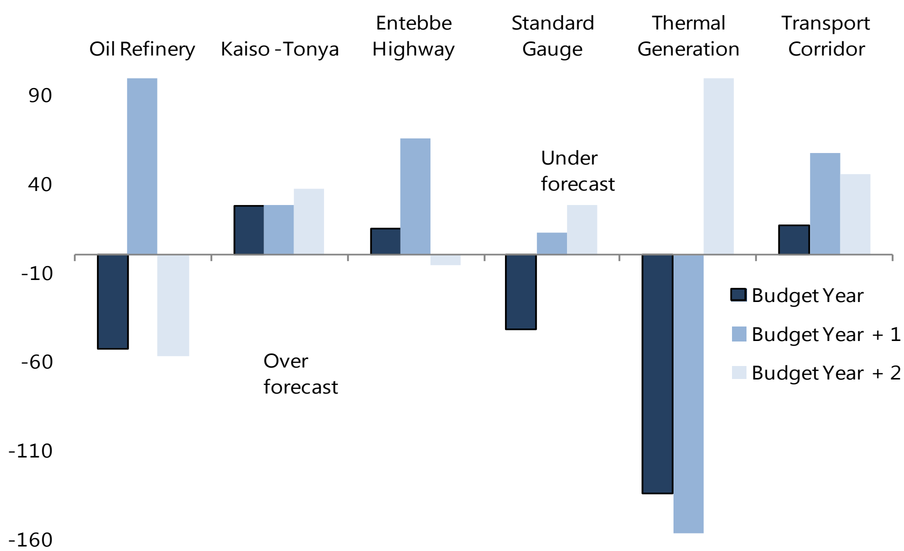
Table 10. Uganda: Planned Medium-Term Spending for the Karuma Hydroelectric Power Project

Karuma (Project 1183)	Budget Year	Budget Year + 1	Budget Year + 2
In Public Investment Plan (UGX Bn.)	1,044	1,011	1,037
Outturn (UGX Bn.)	0.5	32.3	459.0
Difference (UGX Bn.)	(1,043.50)	(978.27)	(577.66)
Difference (Percentage Points)	(208,620)	(3,032)	(126)

Source: Public Investment Plan and Budget Performance Reports, Ministry of Finance.

Figure 9. Uganda: Variances in the Public Investment Plan, 2012/13–2014/15

(Percent)



Source: Public Investment Plan and Budget Performance Reports, Ministry of Finance. Excludes donor project budgets and outturns.

Note: Project names have been abbreviated, but refer to following project codes from left to right 1184, 1033, 1180, 1183, 1097, 0940, and 1056.

40. There was a significant fall in the value of procurements made through open competition in the FY 2014/15. The value of open and competitive tenders as a percentage of all procurements dropped from 88 percent to 50 percent as revealed by the *Public Procurement and Disposals Authority's Procurement Performance Measurement Systems Report* for FY 2014/15. While the drop in compliance can be partially attributed to raising of thresholds for open competition for central government amendment of the Public Procurement and Disposals Authority Act, the performance report confirms that not all major projects have been contracted via open and competitive tender. There are, however, instances where the financing conditions of creditors or donors restrict the bidding to companies domiciled in specified countries.

41. The government does not provide central guidelines on project selection and appraisal. For major investment projects, while feasibility studies are commonly carried out, for donor funded projects, these are not published. The absence of standard appraisal requirements is of particular concern since Uganda has embarked on a program of large infrastructure projects. To address this weakness, development of the guidelines is underway by the Ministry of Finance with support from the World Bank.

B. Orderliness

2.2.1. Fiscal legislation (Good)

42. The PFMA defines the timetable for budget preparation and approval, and the key content requirements of the budget documents. It sets out: the detailed roles and responsibilities of the executive in the preparation and management of the budget; the calendar for the budget preparation and approval processes; the content requirements for the *Budget Framework Paper* and the *Budget Estimates*. This is consistent with the Constitution that sets out the broad powers of the executive and the legislature. Other fiscal legislation that guides the process includes: the National Audit Act, 2008; Public Procurement and Disposal of Assets Act, 2011; Local Government Act (Amended); Uganda Bureau of Statistics Act, 1998; and the Public-Private Partnership Act, 2015.

43. The legal framework does not clearly define the powers of Parliament to amend the proposed budget. The powers of Parliament in amending the budget proposals for either increases or reductions in expenditures and any changes to revenue are covered in general terms under a constitutional provision (Art. 155(4)). This article provides for a committee of Parliament to review and make appropriate recommendations to the Parliament. Neither the PFMA nor the *Parliamentary Rules of Procedure 2012*, are specific on the extent of parliamentary discretion in making amendments to the budget proposals.

2.2.2. Timeliness of budget documents (Advanced)

44. The timeliness of presentation of the budget documents to Parliament have significantly improved since the passing of the PFMA, 2015. The 2015/16 annual budget was presented to Parliament on April 1 and approved on May 29, 2015 The submission of the *Budget Framework* in December and the *Ministerial Policy Statement* by mid-March preceding the budget year has enhanced the time available for scrutiny of the executive's budget proposals. The budget documents were published on the Ministry of Finance website and on the *Know Your Budget* website at the same time they are presented to Parliament. The PFMA requires that the budget is submitted to Parliament three months before and approved one month before the start of the financial year—this has happened during the 2016/17 budget process (Table 11).

Table 11. Uganda: Publication of Budget Documentation v. Statutory Deadlines, FY 2016/17

Documentation	National Budget Framework Paper	Ministerial Policy Statement	Annual Budget
Statutory deadline for submission	December 31	March 15	April 1
Dates delivered	December 15, 2015	March 15, 2015	April 1, 2016
Statutory timeline for approval	February 1		May 30, 2016
Date approved	January 6, 2016		May 3, 2016
Date published	January 6, 2015		
Date effective			July 1, 2016

C. Policy Orientation

2.3.1. Fiscal policy objectives (Basic)

45. Numerical objectives for domestic revenue, the overall balance and debt are published in national budget documents. The *National Budget Framework Paper* has targets for annual growth of domestic revenue collection of 0.5 percent, to reduce the overall balance to -3.4 percent of GDP by FY 2020/21 and to limit debt to within 50 percent of GDP over the same period consistent with the *Public Debt Management Framework*. These indicators are reported against annually through a table of selected fiscal indicators in the *Annual Budget Performance Report*.

46. While these targets are time bound, they lack the precision and biannual reporting required by the Charter of Fiscal Responsibility. Submission of the Charter to Parliament within three months after its first sitting, in accordance with the PFMA (Section 5), is expected in mid-2016. The same section requires an explanation of the methodology to be used to measure the performance of government against the fiscal policy objectives, and a list of data sources used for the economic and fiscal update, which are currently not provided in the *National BFP*. Section 18 of the PFMA requires biannual reporting on how the macroeconomic and fiscal performance may affect compliance with the fiscal objectives in Charter of Fiscal Responsibility. This type of analysis is currently missing in the *Budget Performance Report*.

2.3.2. Performance information (Good)

47. The budget documentation presents information on targets for, and performance against, the outputs delivered under each major government policy area. The approved *Budget Estimates, Budget Framework Paper*, and *Ministerial Policy Statements* are structured by vote function and output.[13] Each contains a subset of performance targets at the output level.

[13] A Vote Function is defined as a group of recurrent departments and development projects with a similar policy objective.

Sector level outcome indicators are included in the *National Budget Framework Paper*. The biannual *Budget Performance Report* produced by Ministry of Finance and the Government Performance Report produced by the Office of the Prime Minister report on performance against these targets, are published and discussed at biannual Cabinet performance reviews.[14] The Ministry of Finance has a monitoring unit that triangulates this performance information with field visits to major investment projects and decentralized services to explore potential service delivery constraints.[15]

48. The outcomes to be achieved under each major government policy area will be developed through the introduction of program budgeting. The plan is to introduce a program based structure for FY 2017/18 budget. This is intended to distill high-level strategic outcomes by major government policy area and to strengthen linkages to the National Development Plan, while supplementing the existing output based budget structure.

2.3.3. Public participation (Good)

49. The budget calendar provides for a platform for consultation with the public on fiscal and sector policy issues. Budgetary choices are discussed between different government stakeholders at the national and local government workshops, which are conducted during the strategic budget phase prior to the publication of the *National Budget Framework Paper*. Civil society groups form part of these deliberations, although formalizing feedback from the workshops and deliberating with the public, would provide a greater role for public involvement.

50. The "know your budget" website and *Citizen's Budget* support public participation and transparency. The "*Know Your Budget*" website allows the public to scrutinize decentralized budget allocations to the lower local government level.[16] The *Citizen's Budget* provides an accessible description of the recent fiscal performance and economic prospects, and highlights the important features of the annual budget for citizens, identifying the major revenue measures and sector spending priorities. These both contribute towards Uganda's high open budget index scoring of 62, which is well above the global average (45) and regional peers (the closest of which is Kenya with 48).[17] Plans to publish the *Citizen's Budget* alongside the *Approved Estimates* and to include implications of the budget for different demographic groups will improve transparency.

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[14] http://www.opm.go.ug/departments/PolicyCoordinationMonitoringandEvaluation/monitoring-and-evaluation.html.

[15] http://www.finance.go.ug/index.php?option=com_content&view=article&id=57&Itemid=94.

[16] http://budget.go.ug/.

[17] http://www.internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/country-info/?country=ug.

D. Credibility

2.4.1. Independent evaluation (Not Met)

51. Uganda's economic and fiscal forecasts are not currently subjected to independent evaluation or compared with those of independent forecasters. Deliberations take place between Bureau of Statistics, the Central Bank, and the Ministry of Finance, and forecasts are discussed with the IMF through the Policy Support Instrument (PSI). However, budget documents do not include a formal independent analysis of the government's forecast to test the underlying assumptions or verify its credibility. The National Planning Authority produces an independent forecast, which serves as an ideal scenario for growth and sectoral allocations as opposed to viable check of the forecasts. The Parliamentary Budget Office plays an ex-post role in scrutinizing budget decisions, but does not produce an ex-ante independent evaluation.

52. Supporting the establishment of independent evaluations of the government's macroeconomic and fiscal forecasts may help reduce the errors identified in recent years. This role can be fulfilled by an independent fiscal council, such as a Parliamentary Budget Office, as is the case in South Africa and Kenya. There is scope for similar arrangements in Uganda, particularly with its strong base of academic institutions, such as the Economic Policy Research Centre. Recent IMF research has shown that forecast bias tends to decline in countries that have set up independent fiscal institutions.[18] An interim step would be to publish comparisons with the forecasts of reputable international and regional institutions. Given the discrepancies in forecasting and reconciliation outlined in sections 2.1.2 and 2.4.3, this could be an important area of attention going forward.

2.4.2. Supplementary budget (Basic)

53. The law limits additional expenditure to three percent of the approved budget subject to notifying Parliament within four months. The Minister is obliged to seek prior parliamentary approval for any additional expenditure above this 3 percent limit. The Constitution allows for a supplementary budget where there is no appropriation or for monies expended for any purpose in excess of the appropriation. This has led to supplementary budget requirements being continually met through the suppression of approved expenditures that are considered less critical, with the investment projects being the main casualty (see Figure 8).

54. 12 out of the last 15 supplementary budgets have exceeded the 3 percent limit and have been implemented without ex-ante parliamentary approval. Since FY 2000/01, supplementary budgets have exceeded 3 percent, with the exception of three financial years.

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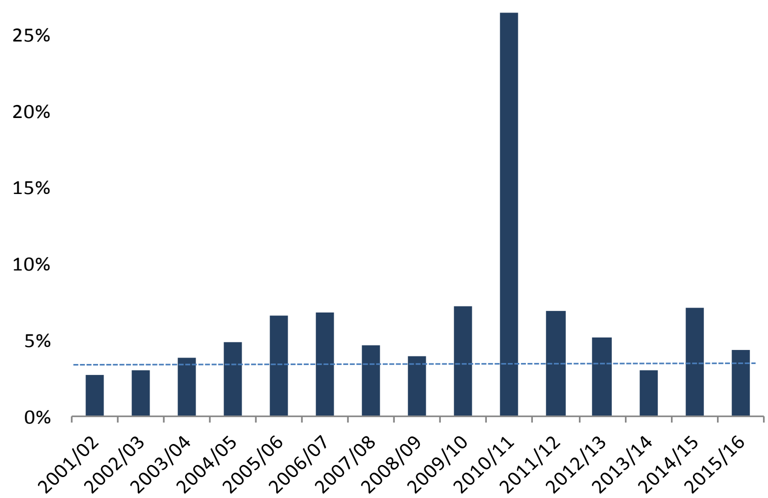
[18] http://www.imf.org/external/np/pp/eng/2014/040714c.pdf.

Over this period supplementary budgets have averaged 6.4 percent of budgeted spending (or 5 percent excluding the outlier in FY 2010/11) as depicted in Figure 10.

Figure 10. Uganda: Supplementary Expenditures as Proportion of the Approved Budget, 2001–16

(Percent)



Source: Supplementary schedules and budget appropriation acts. The total appropriated budget includes donor projects and non-tax revenues retained and spending by ministries and agencies.

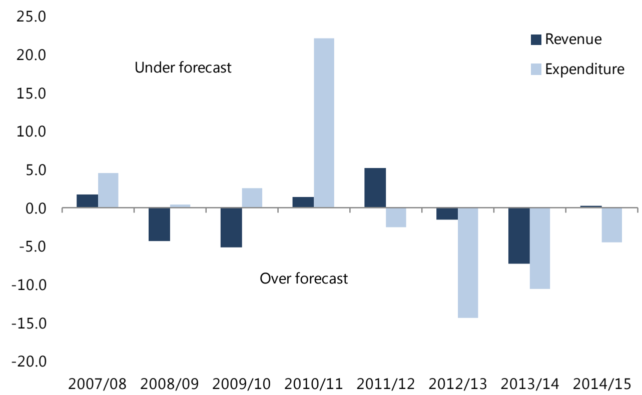
2.4.3. Forecast reconciliation (Not Met)

55. Budget documentation does not explain the differences between the successive vintages of forecast information. The *Annual Budget Performance Report* and *Uganda Revenue Authority Bulletin* provide some provisional reasons for why the revenue, expenditure and financing outturns deviated from the plan. However, these do not provide a sufficient qualitative explanation of whether the differences were due to policy changes, new macroeconomic forecast determinants, or other factors such as one off demands, for example, election spending.

56. There have been significant variations between expenditure forecasts and outturns in recent years, which have been far greater than for domestic revenue variances (Figure 11). For expenditures, these have fluctuated from a 28 percent underestimation in 2010/11 to a 13 percent and 10 percent overestimation in FY 2012/13 and 2013/14 respectively. For domestic revenue, errors were far less volatile ranging approximately between 3 percent and -6 percent over the same period When compared against regional peers, Uganda's domestic revenue forecast was more accurate than Kenya and Tanzania for the budget year and the first outer year.

Figure 11. Uganda: Difference between Projected Revenues, Expenditures, and Outturns

(Percent)



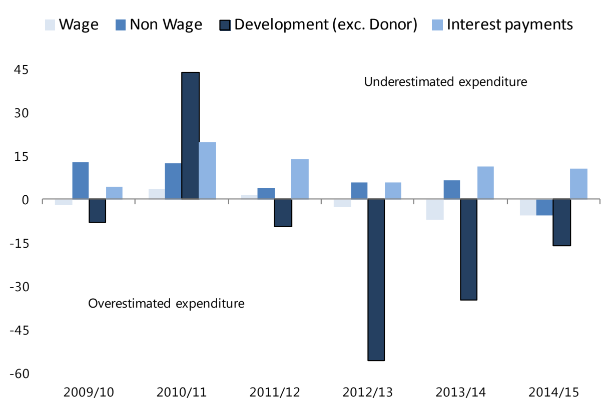
Source: Approved Budget Estimates and Annual Budget Performance Reports.

Notes: Donor project numbers are excluded from the expenditure analysis as there is no reliable historic outturn data for external funds. Domestic revenue collections comprise of URA collections and Non Tax Revenue. FY 2010/11 includes oil capital gains tax inflows.

57. Publishing forecast reconciliations help improve understanding of the factors driving differences between outturns and forecasts, and help inform future forecasts. Figure 12 provides an illustration of how this could be done for expenditures. It shows differences between the year-ahead expenditure forecast and outturn for the past six years, broken down into the major expenditure categories. The next stage in such analysis would be to examine the causes of the largest errors and to determine whether they are due to errors in the underlying economic forecast, unanticipated policy changes, technical adjustments, or other factors. This would in turn help inform future changes to broad expenditure categories over the medium term.

Figure 12. Uganda: Forecast Errors for Major Expenditure Categories

(Percent points)



Sources: Approved Budget Estimates and Annual Budget Performance Reports—excludes arrears and taxes.

E. Conclusions and Recommendations

58. Table 12 summarizes the assessment of Uganda's practices against the Code. Uganda scores well in principles related to budget unity, publication of forecasts, and their underlying assumptions, fiscal legislation, timeliness of and inclusion of performance information in budget documents, and public participation in the process. However, neither the multi-year commitments nor the cost benefit analyses for major investment projects are published and there are weaknesses in the openness and competitiveness of the tendering process. Further, there is currently no independent evaluation of macroeconomic or fiscal forecasts or explanation of differences between successive forecasts.

59. The new PFM law has already enhanced performance under the Code, and further improvements should be seen once the law is fully implemented. The earlier deadline for submission of the budget is a good example. Once the Act is fully implemented, the level of transparency, and consequently the scores under the Code should significantly improve especially when the provisions relating to publication and reporting against the fiscal objectives in the Charter of Fiscal Responsibility, and the publication of multi-year commitments are complied with. The government has initiated various reforms that will further contribute to improved fiscal forecasting and budgeting.

60. To further increase transparency and credibility of fiscal forecasting and budgeting, this report recommends that the government:

- Include estimates of total project costs with projected expenditures over the medium-term expenditure framework in budget documents and ensure that all major projects are subject to a feasibility study including a published cost benefit analysis. (2.1)
- Publish the Charter of Fiscal Responsibility and regularly report on: (i) the impact of proposed changes in revenue and expenditure; (ii) a clearer elaboration of the measures to meet the targets; and (iii) better reporting on the progress against targets through the *Budget Performance Report*. (2.2)
- Provide a summary of in-year changes to expenditure and revenue plans by budget unit shortly after they have been agreed, and incorporate the information in the subsequent semi-annual budget execution report. (2.3)
- Estimate, explain, and publish in budget documents the main factors, including new policy decisions, driving the changes between successive fiscal forecasts, setting out lessons for future forecasts. (2.4)

Table 12. Summary Assessment of Uganda's Fiscal Forecasting and Budgeting

	Principle	Assessment	Importance	Rec.
2.1.1	**Budget Unity**	**Good:** The budget incorporates gross estimates of revenue and expenditure, and financing needs of ministries, agencies, and some, but not all, extra-budgetary funds (EBF).	**Low:** 50 (possibly small) EBUs, are currently not included in budget documentation.	
2.1.2	**Macroeconomic Forecast**	**Good:** Forecast of main macroeconomic variables and underlying assumptions included in budget documents.	**Medium:** Year-ahead GDP forecast errors averaged -2.8% since FY 2011/12 (high by regional comparison).	
2.1.3	**Medium-Term Budget**	**Basic:** Budget documentation includes outturns and medium-term projections of aggregate revenues, expenditures, and financing. Outturns do not detail expenditure by economic items.	**Medium:** Detailed outturns help reveal allocation reallocation from high to low priorities.	
2.1.4	**Investment Projects**	**Not Met:** PPDA reports reduction in compliance with law. PIP does not disclose total obligations of multi annual investment projects. Cost benefit analyses are not published.	**High:** Large variations between the PIP outer year projections and annual spending. Drop in value of open and competitive tenders (88% to 50%).	**2.1**
2.2.1	**Fiscal Legislation**	**Good:** Law has clear timetable and specifies the content of budget documents. Discretion of the Parliament in amending the budget not explicit.	**Low:** Comprehensive regulations will be needed to implement the new Act.	
2.2.2	**Timeliness of Budget Documents**	**Advanced:** Budget is presented to Parliament three months and approved one month before the start of the financial year.	**Low:** The budget is submitted and approved in accordance with advanced practice.	
2.3.1	**Fiscal Policy Objectives**	**Basic:** The fiscal objectives do not provide sufficient information on how medium-term targets will be achieved.	**High:** Enhances eporting is required to meet PFMA and EAMU convergence criteria.	**2.2**
2.3.2	**Performance Information**	**Good:** Budget documentation presents targets for, and performance against, the outputs delivered under each major government policy area.	**Low:** Plans to improve performance outcomes are underway with the PBB.	
2.3.3	**Public Participation**	**Good:** The budget calendar, the *Citizen's Budget*, and "know your budget" website support public participation in budget processes.	**Medium:** Formalizing feedback from the budget consultative workshops will help gauge public opinion on budget.	
2.4.1	**Independent Evaluation**	**Not met:** No independent evaluation of macroeocnomic or fiscal forecasts.	**Medium:** Overly optimistic macro forecast in recent years.	
2.4.2	**Supplementary Budget**	**Basic:** 3% of total budgeted expenditure can be reallocated without parliamentary approval.	**High:** Supplementary budgets have averaged 6.4 percent since 2000.	
2.4.3	**Forecast Reconciliation**	**Not met:** No explanation is provided of differences between successive vintages of government forecasts.	**High:** Expenditures have deviated 13% over the past eight years without explanation as to whether these are policy, one-off, or technical adjustments.	**2.3**

III. FISCAL RISKS

61. **This section assesses the government's analysis, reporting, and management of fiscal risks compared to the practices set out in the Code.** It looks at three dimensions:

- General arrangements for disclosure and analysis of fiscal risks;
- Reporting and management of risks emanating from specific sources, such as government guarantees, public partnerships, and the financial sector; and
- Coordination of fiscal decision-making between central government, local government, and public corporations.

62. **Uganda performs well against the Code in several areas.** The government has recently published a fiscal risk statement that describes and quantifies macroeconomic and debt refinancing risks. Though its coverage is still limited, it represents an effort towards transparency around fiscal risks. Various reports provide comprehensive analysis of macroeconomic and specific fiscal risks, such as guarantees, ongoing litigation claims and contingent liabilities from major public-private partnerships (PPP) projects (Table 13). The Bank of Uganda publishes its analysis on the main risks facing the financial sector, and reports on the position of the deposit protection funds. Revenue from the sale of mineral and oil resources, as well as the known reserves are regularly disclosed. Environmental risks are known and discussed. Nevertheless, information is scattered and could be usefully summarized in the fiscal risk statement.

Table 13. Uganda: Published Reports Discussing Fiscal Risks

Title	Fiscal Risks Discussed	Author	Frequency
Debt Sustainability Analysis	Macroeconomic	Ministry of Finance	Annual
Fiscal Risk Statement (annex to Budget Framework Paper)	Macroeconomic and refinancing	Ministry of Finance	Annual
Medium-Term Debt Strategy	Macroeconomic and refinancing	Ministry of Finance	Annual
Consolidated Financial Statements of Central Government	Guarantees and Court Claims	Ministry of Finance	Annual
Public Debt, Guarantees, and Other Financial Liabilities and Grants	Guarantees, Explicit Contingent Liabilities, and PPPs	Ministry of Finance	Annual
Annual Supervision Financial Stability Report	Financial Sector	Bank of Uganda	Annual
Annual Statistical Abstract	Natural Resources	Ministry of Energy and Mineral Development	Annual
Economic Assessment of the Impact of Climate Change in Uganda	Environmental	Ministry of Water and Environment	One off

Sources: Respective institutions' websites.

63. **There are two areas where the standard of basic practice, as set by the *Fiscal Transparency Code*, is not met.** Analysis of the long-term sustainability of public finances

including pension and other long-term liabilities is not published. Insufficient budget allocation for contingencies has been provided for in recent budgets, which contravenes the requirements of the PFMA 2015 and basic practice under the Code.

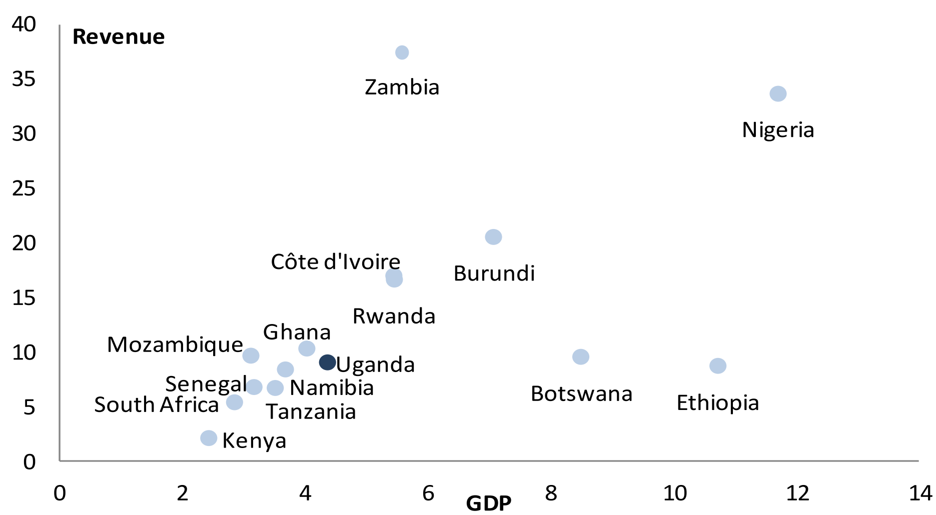
A. Disclosure and Analysis

3.1.1 Macroeconomic risks (Good)

64. Budget document contains sensitivity analysis of various macroeconomic and fiscal scenarios. The annual *Debt Sustainability Analysis Report*, which follows the framework developed by the IMF-World Bank, considers the impact of plausible future scenarios of lower growth, exchange rate depreciation, and higher fiscal deficit on debt in the medium term. The *Medium-Term Debt Strategy*, quantifies the risks to the existing debt portfolio, in the form of refinancing, interest rate, and foreign exchange rate risks. The *Budget Framework Paper for FY 2016/17* contains a *Fiscal Risk Statement* that discusses factors that can lead to deviations from the baseline macroeconomic projections underlying the budget.

65. The projected increase in public debt poses risks in the medium term. While macroeconomic volatility is close to the average of Sub-Saharan Africa (Figure 13), the planned scaling-up of public investment is expected to raise the debt to GDP ratio to 41 percent in net present value in FY 2020/21. This is still below the 50 percent debt limit set in the East African Monetary Union Protocol, which partner states are expected to maintain after 2021. However, probabilistic projections of alternative debt paths, based on the historical volatilities of the main determinants of debt (growth, interest rate, exchange rate, and primary balance), shows that there are some downside risks to this limit being breached (Figure 14).

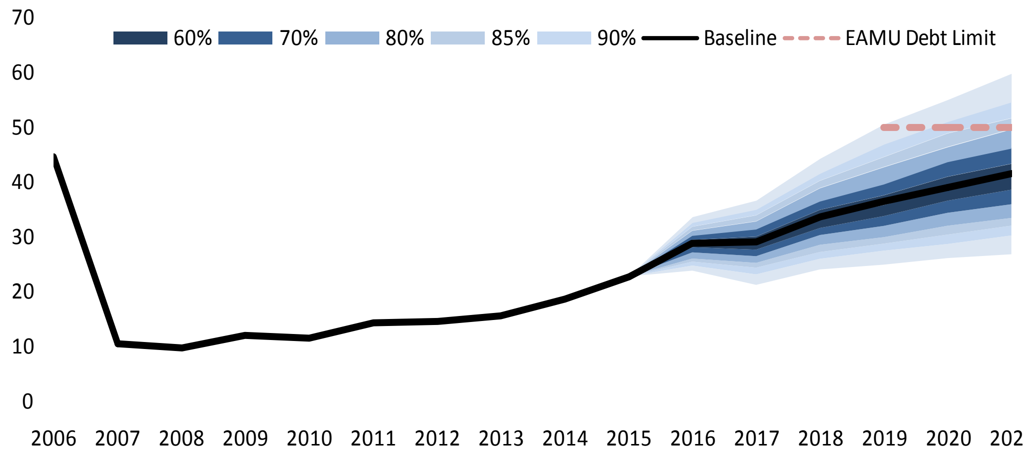
Figure 13. Uganda: Volatility of Nominal GDP and Government Revenue
(Standard deviation of growth rates, 2005–15)



Source: IMF World Economic Outlook database, April 2016.

Figure 14. Uganda: Macro-Sensitivity Analysis of Public Debt in Net Present Value

(Percent of GDP)



Source: Staff calculations. The baseline debt projection reflects the latest debt sustainability analysis carried out for Uganda by the IMF in November 2015 (IMF Country Report No. 15/321). The stochastic debt projections are based on the historical variance-covariance matrix of the main determinants of debt (GDP growth, the effective interest rate on debt, the real exchange rate, and the primary balance) during 2005–15.

3.1.2. Specific fiscal risks (Basic)

66. The government reports on some specific fiscal risks. The *Fiscal Risk Statement* discusses the risks around the financing and execution of future investment projects. A report submitted to Parliament on *Public Debt, Guarantees, and Grants*, lists government loan guarantees to private entities, and estimates of contingent liabilities arising from ongoing PPP projects. A *Statement of Contingent Liabilities* in the *Consolidated Financial Statements* contains the value on legal claims and various government guarantees.

67. Information on specific fiscal risks are scattered and several large fiscal risks are not disclosed regularly. This includes arrears, future pension liabilities, public corporation liabilities, public sector asset holdings of the public sector, and support to the banking system. Further details of these risks are provided in the following sections of this chapter.

Table 14. Uganda: Size of Selected Specific Fiscal Risks

	UGX, Billions	Percent of GDP	Date
Reported		**13.8**	
Government loan guarantees [1,2]	450	0.6	Dec. 2015
Eligible deposits not covered by value of deposit protection fund [3]	448	0.6	Dec. 2015
Pending court cases [2]	4,312	5.8	June 2015
Private-Public Partnership [1]	5,130	6.8	Dec. 2015
Unreported		**66**	
Unfunded future pension liabilities [4]	16,170	22	
Uninsured deposits at privately-owned financial institutions [3]	14,530	19.5	Dec. 2015
o/w Uninsured mobile money ("Escrow") deposits	200	0.3	Dec. 2015
Public corporation liabilities (exc. NSSF and Bank of Uganda) [5]	3,600	4.8	June 2015

	UGX, Billions	Percent of GDP	Date
Bank of Uganda liabilities [5]	9,300	12.5	June 2015
National Social Security Fund liabilities [5]	5,200	7	June 2015
Public sector equity holdings and loans [5]	6,800	9.2	June 2015

[1]Report on Public Debt, Guarantees and Other Financial Liabilities and Grants.

[2]Consolidated Annual Financial Statements 2014/15.

[3]See Section 3.2.5.

[4]World Bank Report.

[5]See Table 4, and Section 3.2.2 and 3.3.2.

3.1.3. Long-term sustainability of public finances (Not Met)

68. The government publishes debt projections for the next 20 years. Its latest debt sustainability report suggests that Uganda remains at low risk of debt distress. However, the strong depreciation of the shilling has raised the debt burden since the preceding analysis was conducted. Debt is expected to rise sharply until 2021 but to decline to sustainable levels thereafter (Figure 13). This improvement is conditional on lower public finances (lower deficits) and the materialization of the growth benefits from the current infrastructure spending.[19]

69. Public sector pensions are paid as an expense from the budget and there is no reporting on the sustainability of the current scheme. A study by the World Bank shows that pension spending is expected to increase from 2–3 percent of spending to 6 percent in 2060, as a result of the expansion of the government sector.[20] This puts the present value of future public pension liabilities to UGX 16 trillion (22 percent of GDP).

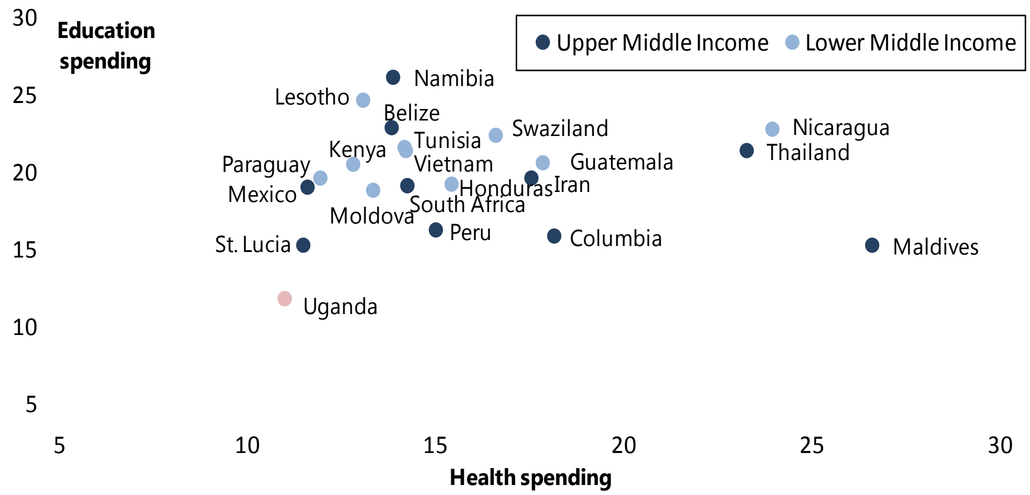
70. Demographic trends are expected to be broadly favorable, but pressures for more public spending could arise. The old age dependency ratio is likely to remain low in the foreseeable future, in contrast to some advanced and upper middle income countries where the sustainability of pension systems is being questioned. However, the high rate of population growth—3.3 percent annually compared to an average of 2.7 in sub-Saharan Africa—could be a source of pressure on government finances to maintain the provision of basic services, such as education and health. In addition, as Uganda graduates into middle-income status in the future, the share of education and health in government spending is expected to increase, in line with similar countries (Figure 15).

[19]Fifth Review under the Policy Support Instrument, IMF Staff, November 2015, Report (Report No. 15/321).

[20]*Reducing Old Age and Economic Vulnerabilities: Why Uganda Should Improve its Pension System*, Uganda Economic Update, World Bank, July 2014, (Report No: ACS9729).

Figure 15. Public Spending on Education and Health

(Percent of government spending)



Source: World Development Indicators.

B. Risk Management

3.2.1. Budgetary contingencies (Not Met)

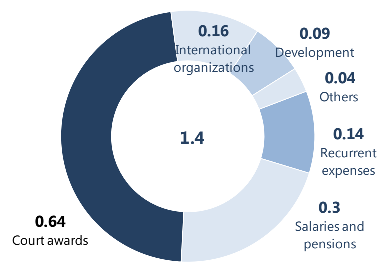
71. A budget contingency which is limited to natural disasters exists in the law but the practice has yet to follow. The Constitution makes provision for a Contingencies Fund, and the PFMA stipulates that the Fund should retain three percent of the budget to address unforeseen and unavoidable expenditure that may arise, and half a percent of the budget to respond to natural disasters. It also requires the Minister of Finance to request the approval of Parliament before spending more than 10 percent of the Fund's value, and to report semiannually on its utilization. The PFMA was amended in November 2015 to limit the resources of the Fund to half a percent of the budget for natural disasters. In FY 2015/16, this allocation was provided for in the budget presented to Parliament, but it was reallocated to other spending items during the year. For FY 2016/17, there is no contingency allocation in both the proposed and approved budget.

3.2.2. Assets and liability management (Basic)

72. Borrowing is authorized by law and some risks around the debt portfolio of central government regularly assessed and reported. The Constitution gives the government the right to borrow from any source as long as this is authorized by or under an Act of Parliament. The broad strategy for borrowing, including a debt ceiling and a limit on non-concessional borrowing, is set in the *Public Debt Management Framework* of 2013. The annual *Medium-Term Debt Strategy* provides an analysis of the main risks (refinancing, interest rate, and exchange rate risks) to the existing debt portfolio and of the costs and risks of new financing strategies.

73. Refinancing risks of domestic debt is high, and there is inconsistent information on arrears. Due to a particularly steep yield curve in the market for domestic government securities, about half of the domestic debt stock (12 percent of GDP) has maturity of less than a year. Presently high, the overall debt service-to-revenue ratio is projected to reach 41 percent in FY 2019/20—one of the highest in low income countries—driven by the continued reliance on low maturity domestic debt. Despite the clearance of known arrears in FY 2014/15, domestic arrears grew as the stock was larger than previously thought, reflecting PFM weaknesses (Figure 16). Arrears accumulated by local governments are likely to be small but the figure is not reported regularly.

Figure 16. Central Government Arrears
(Percent of GDP)



Source: Schedule of Arrears as at June 2015, Ministry of Finance.

74. Risks to the financial assets of the public sector are not reported. Information for FY 2014/15 contained in Table 5—summary accounts of the public sector—show that the stock of BCG loans to public and private entities and the equity participation in public corporations amounted to UGX 5,400 billion (7.3 percent of GDP). Loans from the Bank of Uganda to central government, typically at low interest rates, was UGX 900 billion (1.2 percent of GDP). The stock of treasury securities held by financial public corporation, mainly the National Social Security Fund, amounted to UGX 3,900 billion (5.2 percent of GDP). Taking the public sector as a whole, loans and equity participation in the private sector totaled UGX 6,800 billion (9.2 percent of GDP). Other than the investment portfolio of the National Social Security Fund, which is guided by an investment policy, there is no comprehensive approach to portfolio and risk management of the above-mentioned assets and liabilities. A consolidated public sector balance sheet would be a first step to taking a portfolio approach. The newly established cash and debt management directorate in the Ministry of Finance is expected to manage both assets and liabilities.

3.2.3. Guarantees (Basic)

75. Guarantees are small and a list is published. The Report *on Public Debt, Guarantees, and Grants* contains a list of loan guarantees provided by central government to various public and private entities. In the last five years, no new guarantees have been issued, in what appears to be a policy to phase out guarantees. The face value of reported loan guarantees represented 0.6 percent of GDP as at December 2015. The last called guarantee of UGX 14 billion (US $5.5 million) occurred in FY 2012/13. The same report contains an estimate of the value of guarantees embedded in PPP contracts, if they were to be called—these amount to 0.7 percent of GDP for the period 2016–19.

3.2.4. Public-private partnerships (Basic)

76. There is a well-defined legal and institutional framework, and estimates of contingent liabilities related to PPP contracts are published annually. The PPP Act 2015 establishes the legal and institutional framework to guide the development of PPPs. The Act sets up a high-level PPP committee to validate PPP projects and provide overall guidance on PPP policy, and a PPP unit at the Ministry of Finance that is expected to implement, monitor, and report on PPPs. The *Public Debt, Guarantees, and Grants* report contains estimates of the contingent liabilities over 2016–19 for seven ongoing PPP projects, based on the explicit guarantees provided by the government (Table 15). The report also describes the major projects but does not explain the government's obligations that are giving rise to the contingent liabilities. In addition, the estimates do not cover the lifetime of the projects, which often extend far beyond 2020.

77. There is heavy reliance on PPPs to fund infrastructure projects in Uganda. To reduce its infrastructure gap in the energy sector—only 18 percent of the population has access to electricity compared to 35 percent in sub-Saharan Africa—Uganda has relied heavily on PPPs. The power generation projects shown in table 3.3 generate about 80 percent of electricity in Uganda. The value of ongoing PPP projects (electricity and others) is estimated at 6.8 percent of GDP with an associated contingent liability of 0.7 percent of GDP for the next five years. Within the new legal framework, the government is accelerating the use of PPP as a source of financing public infrastructure. Projects in the pipeline for the next four years include toll roads, an oil refinery, and 17 renewable energy projects, worth UGX 11.6 trillion (15 percent of GDP) in total.

Table 15. Uganda: Ongoing Public-Private Partnerships
(UGX, billions)

Project	Project Value[1]	Cumulative contingent liabilities (2016–19)[2]
Power generation		
Bujagali Hydroelectric	2600	260
Kalangala Infrastructure Services	135	116
Umeme Electricity	250	60
Eskom Electricity Generation	20	5
Kilembe Power Projects	66	60
Other cogeneration plants (Kakira and Kinyara)	102	n/a
Other hydro projects (Bugoye, Mpanga, and Buseruka)	85	n/a
Other		
Kenya-Uganda Railway	1200	17
Kampala Serena Hotel	130	5
	5130	525
Percent of GDP	**6.8**	**0.7**

[1]World Bank public-partnership initiative dataset for ongoing projects.

[2]MoFPED – Report on Public Debt, Guarantees and Other Financial Liabilities and Grants.

3.2.5. Financial sector (Good)

78. Regular assessments of the financial sector are published, showing a profitable and well capitalized banking system. The Bank of Uganda publishes annual financial stability and bank supervision reports that identify risks and vulnerabilities in the financial system. Regular stress tests are undertaken for the banking system and their results are published, although this does not extend to the wider financial sector. The Bank of Uganda also disseminates financial soundness indicators of banks on a quarterly basis. In recent years, banks have maintained their capital above regulatory requirements, and made adequate provisioning for nonperforming loans (Table 16). However, the trend towards bank concentration and dollarization of lending and borrowing could be sources of systemic and currency mismatch risks.

Table 16. Indicators of Banking Sector Stability
(Percent)

	Regulatory Capital to Risk Weighted Assets	Nonperforming Loans to Total Loans	Provisions to Nonperforming Loans	Return on Assets
Kenya	21.7	6.0	57.0	4.0
Mauritius	18.2	7.0	48.4	1.1
Mozambique	17.0	4.3	107.9	2.0
Rwanda	24.2	5.8	48.3	2.8
South Africa	14.2	3.1	47.8	1.5
Tanzania	18.0	6.3	40.9	2.9
Uganda	**21.0**	**5.1**	**41.6**	**3.6**

Sources: IMF Financial Soundness Indicators, April 2016.

79. The positions of the two deposit protection funds are published annually. Deposits at commercial banks and credit institutions (99 percent of all deposits) and deposits at microfinance institutions (1 percent of deposits) are protected by two separate and mandatory funds.[21] Taken together, both funds compare favorably with neighboring countries (Table 17). Their coverage ratios exceed 40 percent of the value of eligible deposits, which are above international standards. However, these funds do not cover the "Escrow" deposits made by mobile network operators on behalf of the users of mobile money. Given that many of these users are poor and are often excluded from the traditional banking system, the government may be faced with a moral obligation to guarantee their deposits—currently UGX 200 bn (0.3 percent of GDP)—in case of failure of the mobile operator or the holding bank. In addition, in the event of a major banking crisis where the government may decide to provide a blanket guarantee to all deposits, including those not covered by the protection funds, the fiscal costs could reach 20 percent of GDP (Table 17).

[21] A recent amendment to the Financial Institutions Act 2004 merges the two funds into one and creates an independent entity to manage the new fund (currently the funds are managed by the Bank of Uganda).

Table 17. Coverage of Deposit Insurance Schemes in the EAC

(Percent of GDP)

	Burundi	Kenya	Rwanda	Tanzania	Uganda
Deposits	19.5	43.5	23.0	17.9	20.5
- Eligible deposits (i.e. deposits below the coverage limit)	-	4.1	-	1.8	1.0
- Deposits covered by current market value of deposit insurance fund	-	0.9	-	0.2	0.4
- Deposits not covered because of insufficient funds in insurance scheme	-	3.2	-	1.6	0.6
- Non-eligible (uninsured) deposits (i.e. deposits in excess of coverage limit)	19.5	39.4	23.0	16.3	19.5

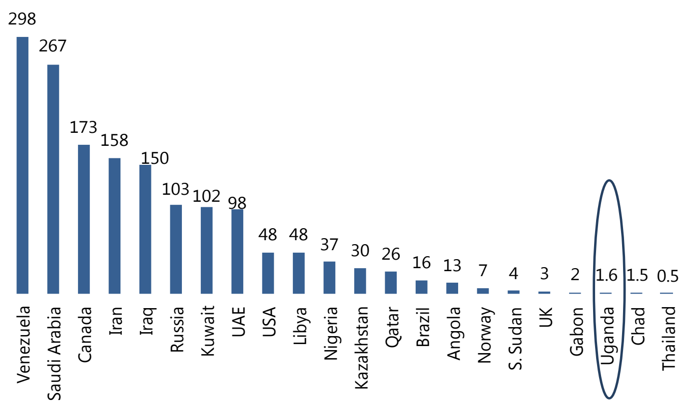
Sources: Staff calculations from central banks' reports on financial stability and financial statements of deposit insurance schemes. Burundi and Rwanda do not have deposit insurance. The coverage limits in Kenya, Tanzania, and Uganda are KES 100,000 (US $1,000), TZS 1.5 million (US $650), and UGX 3 million (US$900) respectively.

3.2.6. Natural resources (Basic)

80. Nontax mineral and oil revenues, and estimates of reserves are reported. Oil revenues from signature bonuses, licenses, and fees collected during exploration (oil production is expected to start after 2020) are reported annually in budget documents. The Ministry of Energy and Mineral Development publishes an *Annual Statistical Abstract* that contains mineral and oil revenues, as well as estimates of oil reserves. It also reports the outcome of its geological surveys for mineral resources in its *Annual Reports*. There is no reporting on the value of mineral and oil assets. Uganda is not a member of the Extractive Industries Transparency Initiative.

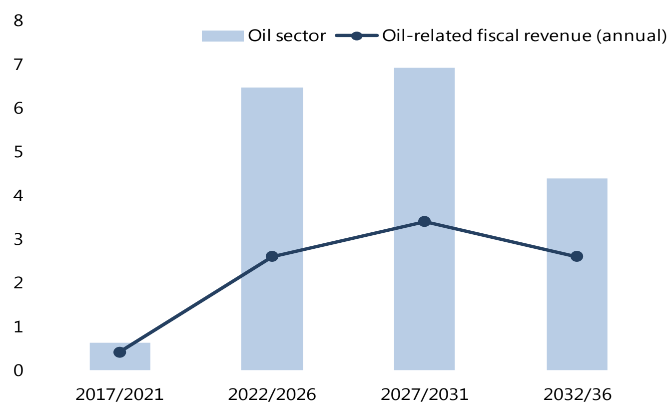
81. Extractive industry revenues are currently small but the prospects are high. The mineral sector, comprising mostly of copper and gold, is largely artisanal and production is estimated at UGX 170 billion annually (0.2 percent of GDP). Fiscal revenue in FY 2014/15 was UGX 6 billion (less than 0.5 percent of government revenue). There is currently no large scale mining production but two projects (Kilembe copper and mine and Sukulu phosphate and steel) are at the development stage. Up to 1.7 billion barrels of recoverable oil reserves have been discovered but production is unlikely to start before 2020. Although small by international comparison (Figure 17), oil reserves have the potential to contribute positively to the development of the economy. During the peak extraction period, oil production could account for seven percent of Uganda's GDP and bring revenues of three percent of GDP to the government (Figure 18). The PFMA establishes a Petroleum Fund held at the Bank of Uganda for oil revenues. The Act also restricts the use of the Fund to finance infrastructure and development projects through the Consolidated Fund and the acquisition of foreign currency denominated assets through the Petroleum Revenue Investment Reserve.

Figure 17. International Comparison of Oil Reserves
(Billion barrels)



Source: Oil reserve estimates: for Uganda – Ministry of Energy and Mineral Development; for all other countries – British Petroleum Statistical Review 2015.

Figure 18. Projections for the Oil Sector in Uganda
(Percent of GDP)



Source: *Fifth Review under the Policy Support Instrument*, IMF Country Report, November 2015.

3.2.7. Environmental risks (Basic)

82. Environmental risks are discussed but there is no quantification of the fiscal costs. A report by the Ministry of Water and Environment outlines some of the major risks facing the country in the form of floods, landslides, and droughts.[22] The report also discusses and quantifies the likely economic impact of more frequent floods and droughts on the economy that can be caused by climate change. The National Policy for Disaster Preparedness and Management

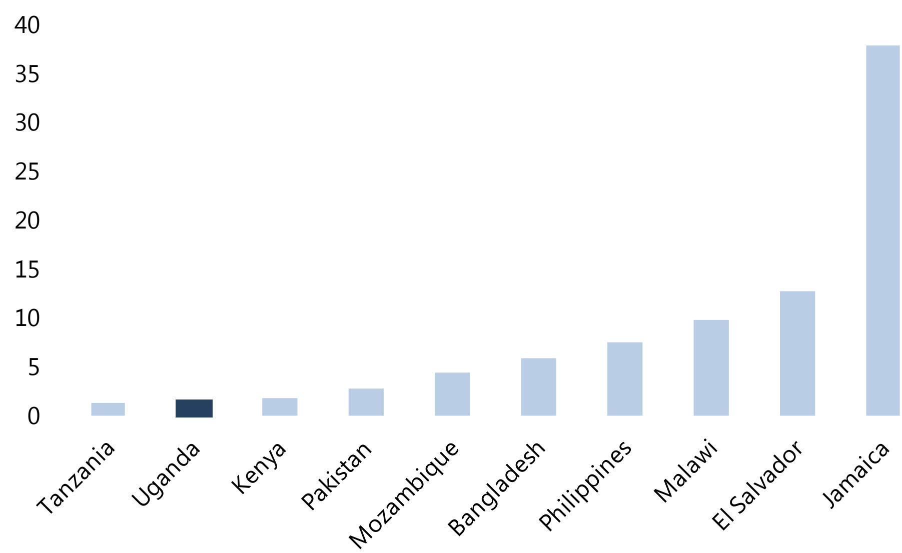
[22] "Economic Assessment of the Impact of Climate Change in Uganda," Ministry of Water and Environment, November 2015.

(2010) sets up a Disaster Management Unit at the Office of the Prime Minister to coordinate disaster response and defines the roles of line ministries. Although the law provides for a contingency budgetary allocation of 0.5 percent of the budget to spend on natural disasters, the actual allocation has been minimal (UGX 7 billion, -0.05 percent of the budget in FY 2015/16), limiting the ability of the Disaster Management Unit respond effectively.

83. Projected economic loss related to natural disasters is not particularly high for Uganda (Figure 19) but this could rise. Rapid population growth and urbanization is likely to put additional strain on renewable resources (the demand for water is expected to increase tenfold by 2050) and lead to environmental degradation (as exemplified by the loss of biodiversity in Lake Victoria and the ongoing deforestation across the country), which could entail high fiscal costs. Other risks include the costs of a prolonged fight against terrorism and an increase in the number of refugees resulting from regional conflicts.

Figure 19. Expected Average Annual Loss

(Percent of Gross National Savings)



Sources: United Nations Office for Disaster Risk Reduction's PreventionWeb Initiative.

C. Coordination

3.3.1. Sub-national governments (Basic)

84. The government publishes information on fiscal operations of local governments, but no balance sheet. Aggregate grants to local governments and their use by economic classification are contained in a monthly statement of BCG operations. An annual statement of operations for local government, which follows *GFSM 2014*, is usually published, but the statement for FY 2014/15 is yet to be published. Local governments submit their individual financial statements to the Auditor General for audit as required by law. The Auditor General publishes a consolidated audit report based on the individual submissions. In FY 2014/15, the proportion of unqualified opinions of local government audits improved to 91 percent, from only 37 percent in FY 2012/13. Nevertheless, there are no consolidated annual financial statements of the local government sector despite the legal requirement, making it difficult to have an overall picture of their financial position and performance.

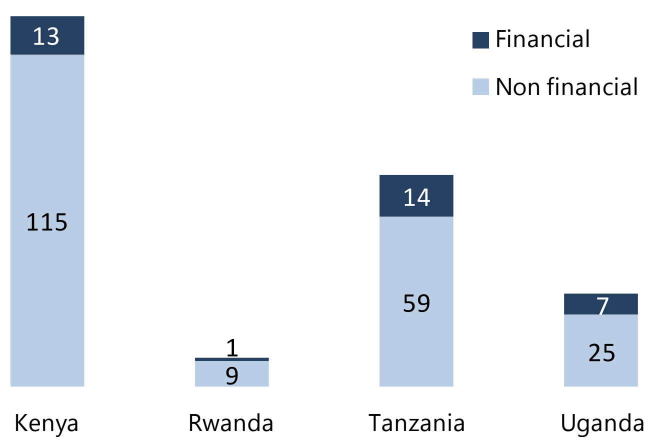
85. Borrowing by local governments is centrally controlled but some incur arrears. The law allows local governments to borrow with the approval of the Minister of Finance, though in practice they do not. The last published audit report indicates expenditure beyond their own revenues and grants received by incurring arrears, the extent of which is unknown to central government. Given that local governments generate little own-source revenue, and execute about 14 percent of the annual national budget, the lack of oversight of their activities is a source of risk.

3.3.2. Public corporations (Basic)

86. Information on transfers to public corporation are disclosed in the budget, but no consolidated information is available. Submission of financial statements to the Accountant General is uneven and often delayed due to differences in their financial years. Individual financial statements are audited by the Auditor General but no consolidated report on the performance of the sector is currently published.

87. Public corporations are largely profitable (Figure 21), but the ongoing recapitalization of the Bank of Uganda has fiscal implications. A large privatization program in the 1990s has left Uganda with a relatively small number of public corporations compared to its peers (Figure 20). To bring its capital to statutory levels, the Bank of Uganda has been gradually recapitalized since 2012 through the issue of treasury bonds and bills, reaching a cumulative 1.1 percent of GDP in FY 2015/16. Further issues amounting to 0.6 percent of GDP are expected up to FY 2018/19.

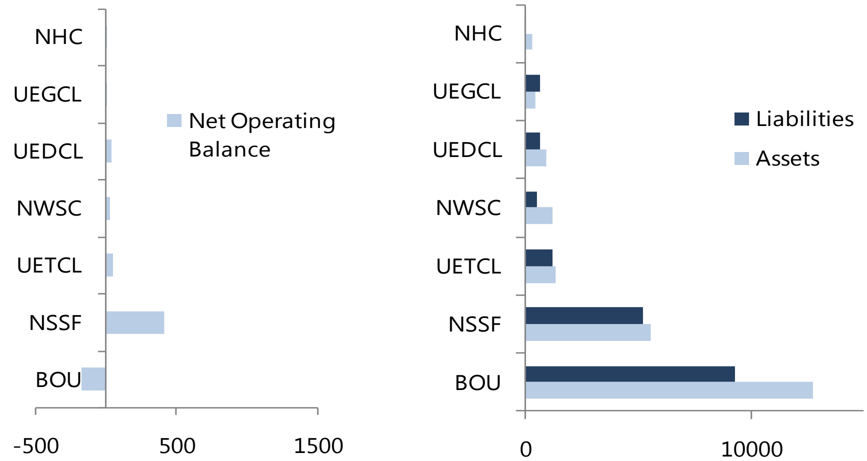
Figure 20. Number and Types of Public Corporations in the East African Community



Source: Country authorities. Classification follows *GFSM 2014*. Data for Burundi not available.

Figure 21. Uganda: Performance and Position of Major Public Corporations

(UGX, billion)



Source: Financial Statements for 2014/15. Acronyms - BOU: Bank of Uganda; NSSF: National Social Security Fund; UETCL: Uganda Electricity Transmission Company; NWSC: National Water and Sewage Corporation; UEDCL: Uganda Electricity Development Company; UEGCL: Uganda Electricity Generation Company; and NHC: National Housing Company

D. Conclusions and Recommendations

88. Table 18 summarizes the assessment of Uganda's practices against those of the Code. It shows that Uganda meets at least the standard of basic practice in ten out of the 12 dimensions. It summarizes the rationale behind each assessment and the importance of each dimension of fiscal risk transparency in the context of Uganda.

89. The analysis, disclosure, and management of fiscal risks and fiscal coordination within the public sector can be improved in several ways. Including more comprehensive disclosure of specific fiscal risks in the budget documents and providing consolidated reports on the position and performance of local governments and public corporations, would improve transparency. Integrating the management of fiscal risks in the budget process through realistic allocations to the Contingencies Fund would help in risk management. Going forward, as the prospects for oil revenue take shape, transparency around oil revenue should be strengthened through improved reporting of the oil reserves, revenue projections under various scenarios, and the position and utilization of the Petroleum Fund.

90. This evaluation recommends strengthening the disclosure, and management of fiscal risks by:

- Improving the Fiscal Risk Statement by including
  - Probabilistic forecasts of fiscal outcomes;

- More comprehensive reporting of specific fiscal risks drawing from various other government reports;
- Analysis of the long-term fiscal projections for the next 30–50 years using various demographic, macroeconomic and fiscal assumptions, including oil revenue; and
- Government contractual obligations under existing PPPs over the lifetime of the projects. (3.1)

- Implement the PFMA (2015) by providing a contingency in the budget. (3.2)
- Ensure regular reporting of the estimates of the value of oil resources under different scenarios for price, start date for extraction and extraction rate, and report on the position and utilization from the Petroleum Fund. (3.3)
- Publish consolidated reports on financial performance and position of public corporations and local governments. (3.4)

Table 18. Summary Assessment of Uganda's Fiscal Risk Reporting

	Principle	Assessment	Importance	Rec
3.1.1	**Macroeconomic Risks**	**Good:** Budget documentation contains sensitivity analysis to macro-fiscal shocks.	**Medium:** Debt is expected to be close to pre-HIPC levels in 2021.	
3.1.2	**Specific Fiscal Risks**	**Basic:** Some fiscal risks are reported but information is scattered.	**High:** Unreported specific fiscal risks represent 66 percent of GDP.	3.1
3.1.3	**Long-Term Fiscal Sustainability**	**Not Met:** Debt sustainability analysis covers 20-year span but pension and other long term liabilities are not assessed and published.	**Medium:** Significant pension liabilities resulting from a generous public pension system.	3.1
3.2.1	**Budgetary Contingencies**	**Not Met:** Legislation provides for Contingencies Fund for natural disasters, and sets access and reporting rules. In practice, this has not been implemented.	**Medium:** Use of contingency funds for non-priority spending hampers the response to emergency or unexpected in-year developments.	3.2
3.2.2	**Asset and Liability Management**	**Basic:** Risks to debt portfolio are analyzed and published. Little analysis of risks around wider assets (equity in public corporations) and liabilities (arrears).	**Medium:** Refinancing risk of domestic debt. Public sector financial assets 23% of GDP; non-financial assets of 92% of GDP.	
3.2.3	**Guarantees**	**Basic:** Loan guarantees are published. No ceiling on guarantees yet—ceiling to be set in forthcoming Charter for Fiscal Responsibility as per provisions of PFMA 2015.	**Low:** The stock of guarantees is low and no new guarantees have been issued recently.	
3.2.4	**Public-Private Partnerships**	**Basic:** Estimates of contingent liabilities are reported but do not cover the full horizon of PPP contracts. The contractual obligations of the government are not published.	**High:** Heavy reliance on PPPs for electricity generation. Several large projects are in the pipeline (projected spending amounting to 15 percent of GDP).	3.1
3.2.5	**Financial Sector Exposure**	**Good:** Regular assessments of the financial sector and results of bank stress tests are published. No assessment of wider financial sector.	**Medium:** Low risk of bank distress but increased dollarization and financial innovations pose new risks.	
3.2.6	**Natural Resources**	**Basic:** Revenue and estimated reserves of oil and minerals published, but no estimates under different price scenarios.	**High:** Potentially important fiscal revenue from oil in the future (3 percent of GDP at peak production).	3.3
3.2.7	**Environmental Risks**	**Basic:** Report contains qualitative discussions of main sources of environmental risks.	**Medium:** Currently low but rising cost of natural disasters and environmental degradation.	
3.3.1	**Subnational Governments**	**Basic:** Consolidated information on local government operations and monthly transfers from central government published. Local government cannot borrow without authorization but may resort to arrears.	**Medium:** Local governments execute 14% of the budget and have accumulated arrears.	3.4
3.3.2	**Public Corporations**	**Basic:** Transfers to public corporations are disclosed but there is no reporting of the financial performance of the sector.	**Medium:** Public corporations are largely profitable, but the Bank of Uganda has needed recapitalization.	3.4

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