IMF Country Report No. 17/266

UGANDA

TECHNICAL ASSISTANCE REPORT—IMPLEMENTING THE PUBLIC FINANCIAL MANAGEMENT BILL

September 2017

This Technical Assistance Report 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 on May 2014.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

FISCAL AFFAIRS DEPARTMENT

Uganda

Implementing the Public Financial Management Bill

Suzanne Flynn, Lynne McKenzie, Conrad Smewing, and Guy Anderson

Technical Assistance Report | May 2014

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

Implementing the Public Financial Management Bill

Suzanne Flynn, Lynne McKenzie, Conrad Smewing, and Guy Anderson

Technical Assistance Report

May 2014

CONTENTS

ABBREVIATIONS AND ACRONYMS

AGD	Accountant General's Department
BFP	Budget Framework Paper
BoU	Bank of Uganda
CF	Consolidated Fund
EAC	East African Community AC NPV
EAMU	East Africa Monetary Union
FAD	Fiscal Affairs Department (IMF)
GFSM	Government Financial Statistics Manual
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
MoFPED	Ministry of Finance, Planning, and Economic Development
MoU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
PBO	Parliamentary Budget Office
PF	Petroleum Fund
PFAA	Public Finance and Accountability Act (2003)
PFM	Public Financial Management
PPP	Public-Private Partnership
PS	Permanent Secretary
PS/ST	Permanent Secretary/Secretary to the Treasury
SAGA	Semi-Autonomous Government Agency
SNA	System of National Accounts
SOE	State-Owned Enterprise
STP	Straight Through Processing
TSA	Treasury Single Account
UCF	Uganda Consolidated Fund
URA	Uganda Revenue Authority
Ushs	Uganda Shillings

PREFACE

In response to a request from the Permanent Secretary/Secretary to the Treasury, Mr. Keith Muhakanizi, a Fiscal Affairs Department (FAD) technical assistance mission visited Kampala during March 17–28, 2014, to advise on the implementation of the new draft public financial management law. The mission team comprised of Ms. Suzanne Flynn (mission head), Ms. Lynne McKenzie, Mr. Conrad Smewing (both external experts), and Mr. Guy Anderson (PFM advisor/AFRITAC East). Mr. Jacinto Muchine joined the mission, by kind permission of the Government of Mozambique, to share the experiences of his government in the implementation of the treasury single account. The mission was funded through the Topical Trust Fund for Management of Natural Resources Wealth.

The mission met with the Permanent Secretary/Secretary to the Treasury, Mr. Keith Muhakanizi; Deputy Secretary to the Treasury Mr. Patrick Ocailap; Accountant General, Mr. Lawrence Semakula; Commissioner of Inspection and Internal Audit, Dr. Fixon Okonye; Ag. Commissioner of Technical and Advisory Services, Godfrey Semogooma and Commissioner of Financial Management Services, Isaac Mpoza of the Ministry of Finance, Planning, and Economic Development. On the charter of fiscal responsibility, the mission worked with a small team in the Directorate of Economic Affairs, comprising Dr. Albert Musisi, Robert Okudi, Paul Mwaja, Charles Matavu, and Moses Kabanda. It also met with the Program Coordinator for the Financial Management and Accountability Program, Mr. Johnson Mutesigensi and Director of Banking at the Bank of Uganda, John Chemonges. The mission also visited the Parliament of Uganda where it met with the Acting Director of the Parliamentary Budget Office, Kiddungi Sulaiman and staff of the office. Finally, the mission met and briefed members of the donor community working on PFM and oil management issues. The mission held individual meetings with Ms. Anne Schwartz, resident adviser on government debt issuance and management and Dr. Elin Jensen, First Secretary of the Norwegian Embassy.

The mission wishes to extend its gratitude to the Economic Affairs Director and Accountant General and their staff, in particular Mr. Robert Okudi and Bernadette Kizito, for organizing the schedule and working sessions of the mission. The mission would also like to express its gratitude to Ms. Ana Lucia Coronel, the IMF Senior Resident Representative, and her staff, particularly Ms. Winifred Bisamaza, for arranging logistics of the mission and providing invaluable support and advice during its visit.

EXECUTIVE SUMMARY

The finalization of the new Public Financial Management Bill, which provides a comprehensive framework for public finances in Uganda, has reached an advanced stage with Parliamentary approval expected in the coming months. The Bill has been the subject of broad consultation and parliamentary debate, with many amendments from the original draft that was prepared with FAD assistance.

The Bill will introduce new fiscal responsibility principles and requirements for petroleum revenue management. Since the Bill will replace two older pieces of legislation, the Budget Act 2001 and the Public Finance and Accountability Act 2003, a new set of supporting regulations and instruments to support the implementation of the Bill will be required. The mission, therefore, reviewed the Bill and made recommendations for the structure and content of the regulations.

In the course of reviewing the Bill, the mission noted substantial lack of clarity in some chapters, notably fiscal policy, reporting, and petroleum revenue management. The most significant issues are that:

- The Petroleum Fund provisions of the Bill, which include: lack of clarity as to the nature of the Fund and conflicting definitions; lack of an objective for the Fund; decision-making overly concentrated on the Minister of Finance; incomplete and unclear reporting and auditing requirements; poor definition of revenues; inadequate provisions to prevent unduly risky investments; and inadequate publication requirements for the investment portfolio;

- The institutional coverage of the Bill is unclear and should be addressed through schedules to the Bill, which specify classes of entities together with specification as to which clauses apply to which class of entity;

- Fiscal policy, and budget documents and reports need clearer specification and firm anchoring in the fiscal principles set in the law.

Drafting improvements were suggested and provided to officials during the mission.

Some of the weaknesses in the Bill can be addressed through regulations, although this is acknowledged as an imperfect solution. The authorities have spent considerable time and effort in reaching consensus on the Bill's contents, involving compromises which do not reflect best practices. Concern was expressed by the authorities that substantial changes at this stage will delay the passage of the Bill, thereby negating some of the good practices enshrined within it. In the view of the authorities, the regulations form a part of the law and will be used to address its weaknesses.

Where it is possible to use regulations to address weaknesses in the Bill, this has been described in the report. The further clarification of content, timing and responsibilities for reporting, auditing and the careful drafting of the agreement with the Bank of Uganda (BoU) are particularly critical in light of the lack of a governing board for petroleum funds, as recommended in earlier FAD reports. The absence of an oversight board has led to a concentration of governance, advisory, reporting and operational roles with the Minister of Finance and potential conflicts of interest which must be guarded against. Regulations must include the further specification of detail on the reporting framework and of the planning, reporting, investment, and auditing requirements for the Petroleum Fund. Suggestions have been made for the work required to set up the Petroleum Fund and the timing for that work.

The mission strongly recommends that the petroleum revenue management provisions in the Bill are revisited. In particular this should include clearly defining the nature of the funds and its objectives, and the revenues due to the Fund. The reporting arrangements should also be clarified and the specialist audit arrangements specified. Finally, the Bill should be enhanced to ensure that investment risks are limited and to protect against its use as a development fund.

Within the Bill, the charter of fiscal responsibility plays a key role; in particular through the measurable fiscal objectives it specifies. The choice of objectives needs to support fiscal discipline in anticipation of a significant influx of oil revenues.

Targeting an annual limit on the non-resource, non-grant fiscal deficit—with a pre-defined two-year correction period where the limit is breached as a result of unexpected revenue shortfalls—would do so. This formulation provides unambiguous guidance on the next year's annual fiscal stance, but avoids the rule being excessively pro-cyclical. The level of the target could adopt the principle that the benefits of oil revenues and grants be constant between generations. Public debt could be maintained at a prudent and sustainable level through a hard annual ceiling, with the requirement to target a significant buffer beneath it. Supplementary targets could further encourage sound management of the public finances if specified carefully. Targets should be based on fiscal aggregates compiled using an international standard such as SNA95 or GFSM 2001, they should in due course be based on consolidated general government.

The Charter should also support the operation of fiscal policy. In particular, it should enshrine the top-down budgeting process implied by the PFM Act and establish mechanisms to help ensure prudent revenue estimates. This should require transparency on the government's forecasting record and their underlying assumptions. It could potentially include pre-commitment to use cautious and externally validated methodologies for key variables like the oil price. Finally, the Charter should specify the timetable and minimum content of reporting on performance against fiscal targets, to ensure it remains transparent and the government is held accountable.

The progress to date in putting in place the foundations for a treasury single account (TSA) has gained momentum, and efficiency gains are being realized. The reform is still at an early stage and the MoFPED is keen to build on progress to date through the expansion of coverage of the TSA. To support the expansion of the TSA, regulations should be developed which define the TSA, distinguish between the TSA and the consolidated fund, and require that all public monies are managed through a TSA arrangement, including the petroleum funds as a sub account.

The next stage in implementation is to expand coverage to bring into the TSA the project accounts, estimated to hold unremunerated balances of approximately $650M. The mission drew upon the experiences of the government of Mozambique to recommend an approach to increasing the coverage through: establishing of donor requirements to understand their specific and common requirements; involving donor representatives in the process; phasing the implementation, starting with domestic currency accounts; developing a memorandum of understanding; and piloting of the solution using both the IFMS and TSA arrangements.

The remainder of the report discusses the suggested structure, content and reporting framework for the charter of fiscal responsibility in Section II (a draft is proposed in Appendix 2 which is attached as a separate document). Section III discusses the Petroleum Revenue Management Fund, proposes amendments to the draft Bill and contents for the regulations. Section IV discusses progress and next steps for the treasury single account and cash management.

Table 1 below indicates an action plan for implementation of the law, which in its timing assumes the passage of the Bill by the end of the fiscal year.

Table 1. Uganda: Summary of Key Recommendations and Indicative Implementation Timeline

Issue and Action Required	Responsibility	Indicative Timeframe	Proposed Technical Assistance
A. Finalize PFM Bill			
• Finalize drafting of the Bill.	MoFPED/ Parliamentary drafters	July 2014	
B. Preparation of Draft Regulations			
• Preparation of First Draft of Regulations	MoFPED	End-September 2014	AFRITAC East/FAD
• Final Draft Regulations for Submission to Parliament	MoFPED	November 2014	
• Approval of Regulations	Cabinet/ Parliament	December	
C. Charter of Budget Responsibility			
• Define and enumerate fiscal objectives to operationalize responsibility principles. • Set criteria for the prudent management of fiscal risk	EAD to prepare recommendations. Cabinet to approve provisional recommendations	April to July 2014 August 2014	AFRITAC East/FAD
• Prepare: ○ Schedule of minimum content of fiscal reports to include in Charter ○ Proposals for mechanisms to ensure prudent revenue forecast	EAD to prepare recommendations Minister to approve	July 2014 August 2014	
• Produce template BFP, including forecast aggregates and required analytical tables under draft Charter.	EAD to produce draft to present alongside Charter	August 2014	
• Prepare draft Charter, including: ○ Agreed fiscal objectives ○ Final reporting requirements	MoFPED to prepare and submit to Cabinet alongside BFP Cabinet to approve	October to December 2014 December 2014	
• Submit Charter to Parliament and approve	Minister to submit to Parliament alongside new format BFP Parliament to approve	December 2014 February 2015	
D. Petroleum Revenue Management			
• Draft regulations in line with the recommendations in the report	MoFPED	July 2014	

Table 1. Uganda: Summary of Key Recommendations and Indicative Implementation Timeline (concluded)

Issue and Action Required	Responsibility	Indicative Timeframe	Proposed Technical Assistance
D. **Petroleum Revenue Management (cont.)**			
• Include the Fund in the fiscal policy, annual budget documents and reports	MoFPED	According to the timing for the budget process	
• Set up the Investment Advisory Committee and secretariat services	MoFPED/BoU	August 2014	
• Develop investment policy	Investment Advisory Committee	December 2014	
• Set up the Valuation and Pricing Committee and secretariat services (if any)	Relevant ministries	July 2014	
• Formally allocate roles and responsibilities within MoFPED to support Minister's functions (appointment to committees, planning, budget allocation to local government of petroleum revenues, reporting, monitoring, approving policy, etc.) and undertake these functions	MoFPED	July 2014	
• Develop agreement with BoU	MoFPED and BoU	October 2014	AFE
E. **Cash Management and Treasury Single Account**			
• Review the structure of the TSA	Accountant General	July 2014	
• Define donor requirements for project accounting and reporting	Accountant General/Aid Liaison Department	June 2014	
• Develop MoU for donor funded projects through the TSA	Accountant General	October 2014	
• Pilot Project TSA (possibly using a number of World Bank funded projects)	Accountant General	September 2014	
• Continue with IFMS roll-out and expansion of the TSA	Accountant General	December 2015	

I. IMPLEMENTING THE LAW-DEVELOPMENT OF FINANCIAL REGULATIONS

A. Status of the Public Financial Management Bill

1. **The mission reviewed a draft of the PFM Bill dated November 2013.**[1] An early draft of the Bill was developed with technical assistance from FAD. At the time of the mission, the latest draft of the Bill was subject to a detailed review between officials and the Parliamentary Committee. The Bill, as it is currently drafted, suffers from a number of conceptual and drafting weaknesses which will impact on the government's ability to implement its provisions. These issues were summarized and provided to officials before the meetings with Parliamentary Committees. In the view of the mission, many of these issues cannot be fully addressed through regulation and may require further amendment. The most significant concerns are discussed below.

2. **The institutional coverage of the Bill is not clearly expressed, either in definitions or in individual clauses of the Bill.** Since the East African Monetary Union (EAMU) protocol currently envisages general government and eventually public sector reporting, careful thought should be given to transitional provisions for expanding the coverage of the provisions of the Bill. It is also unclear what institutions specific clauses apply to, as they are not clearly specified. It was agreed that this could be addressed by adding schedules to the Bill, with lists of entities by name for the various classes of entities defined, with a power for the Minister to amend and add to these.

3. **The fiscal principles specified in the Bill currently mix principles and process requirements, and need amendment.** The Bill should not elevate consistency with the National Development Plan (NDP) to a fiscal principle, with the NDP constraining the targets set in the Charter. Instead, the NDP should comply with the fiscal principles, and be constrained by the fiscal objectives in the Charter. The need for consistency can be included as a process requirement, although the NDP can quickly become out of date. Moreover, the requirement to raise revenues to fund government programs (rather than only fund programs affordable from revenues) is not a fiscally responsible principle.

4. **The macroeconomic and fiscal policy related documents must be firmly anchored in the fiscal principles set out in the Bill.** The charter of fiscal responsibility, budget framework paper, and half-year and annual reports need to explain how these principles are achieved. Reports on deviations also need to link back to the fiscal responsibility principles as well as the

[1] The version included recent tracked changes by MoFPED.

measurable fiscal objectives in the Charter. These issues should be further elaborated in regulations.

5. Provisions for virements, supplementary budgets, and the contingency fund will require further elaboration and detail in the regulations. The Bill, as it stands, would allow a budget to be implemented which is very different to that passed by Parliament. The unit of appropriation is too broad (vote level) and the virement rules permit large changes in expenditure. A virement can be up to 10 percent of a vote and this is not specified as 10 percent in total for each year, but can be understood as10 percent for each virement, an issue which should be addressed in the regulations. This is compounded by the ability to spend 10 percent above the level of a vote upon approval approved by the Minister. The latter can create very negative incentives for Ministers to lobby for additional funds and diminishes the role of Parliament in approving a budget, and this provision should be removed during the drafting process. These provisions should be clearly specified, in detail, in the regulations.

6. While supplementary budgets are not usually funded from a contingencies fund as required in the Bill, the provisions are designed to limit the historically high level of supplementary estimates in Uganda. Given the size of the contingencies fund, it is unlikely to be sufficient to fund the potential supplementary budgets based on the average 8 percent level of supplementary estimates in the past 3 years. However, if officials consider it is operationally feasible in future years, this may not be a significant issue. The regulations should clarify the operation of the fund, since the current drafting of provisions for the contingencies fund mix a contingency appropriation with a separate contingencies fund and therefore tend to mix fund accounting and reporting with reporting on a contingency appropriation.

7. The fragmented and in places repetitive reporting provisions are a significant issue in the Bill. For example, clauses 14 and 16 are partial in places, inconsistent, and unclear. The reports should be well specified in both the Bill and the regulations and instructions, and be clear as to who submits the reports to whom, by when and the publication requirements. The definition of the accounting standards to be used is unclear and should reflect Article 16 of the EAMU protocol on financial management, accounting and reporting, which states that partner states shall harmonize their financial accounting and reporting practices. Recent discussions within the EAC suggest that this is likely to be national standards based on International Public Sector Accounting Standards. The Bill could also set out appropriate transitional provisions to allow for implementation.[2]

8. The provisions in the Bill covering the Petroleum Revenue Fund have considerable issues. These are set out in detail in Section IV which includes governance, and definition regarding revenues and reporting arrangements.

---

[2] Kenya gazetted the Public Sector Accounting Standards Board of Kenya on February 28th 2014, which will support the adoption of IPSAS.

9. A number of provisions in the draft Bill will require transitional provisions to enable a phased implementation of the Bill. The current requirement that the Treasury Memorandum for the preceding year is presented with the budget documents for the budget year is a good example. Since production of the Treasury Memorandum, an essential piece of the accountability loop is currently significantly delayed, measures will need to be taken to speed up this process and in the interim transitional provisions provided. Examples of other areas where transitional provisions may be required are:

- To address the loose specification of institutional coverage of the Bill, entities to which the law applies should be included in a schedule to the Bill, classified appropriately with the timing for the inclusion of each class into the provisions of the law;
- Accounting Officers' production of financial statements within two months of the financial year-end, will require a financial year to implement;
- Accountant General's production of the consolidated annual financial statements by end-September of the following financial year; and
- Establishment of Audit committees for all votes, will require increasing the number of Audit committees from one per sector (16) to one per vote, which will require significant effort and financial resources.

B. Overview of Regulations Outline

10. A new set of regulations will need to be developed to support operationalization of the Act, when it is passed. The new act will bring together macroeconomic and fiscal policy making as well as budget preparation, approval, and management. These were previously covered by the Budget Act and its associated instructions, and the more downstream budget execution and control, and accounting and audit requirements, which were covered by the regulations to the Public Finance and Accountability Act and its associated instructions. A completely new part of the PFM framework is the management of petroleum revenues. A proposed structure of the new regulations is briefly explained below. An outline is presented in Appendix I. The resulting outline is not intended to be exhaustive, however it is critical that the regulations, and supporting instruments, such as the agreement with the Bank of Uganda address to the extent possible the weaknesses in the Bill as outlined in this report. It is likely that further issues requiring regulation will arise as the policy and institutional implications of implementing the law are discussed during the actual drafting of the regulations.

11. The key headings proposed follow the structure of the PFM Bill. The regulations should identify those areas for which the MoFPED should develop further guidelines, instructions and manuals, and the process for consultation with the broader community. A summary of the proposed structure and contents is as follows:

Purpose and scope

This part of the regulations sets out a purpose of the regulations and elaborates on the key principles of the Constitution and the PFMB. It should be clear in the regulations, the application and effective date.

Macroeconomic and fiscal policies

This part of the regulations or where more appropriate, the Charter, should make provisions to elaborate on the indicators used to assess the alignment of the fiscal responsibility Charter and associated accountability documents, such as the budget framework paper, medium term debt strategy, and economic updates to the principles in the Bill. It requires definition of the minimum indicators, reports, and publication requirements. It defines the process and contents of the BFP.

Budget preparation, approval, and management

This part should set out the main principles, roles, responsibilities, and reporting requirements of the annual budget cycle, including timely production of entity level documents, ministerial policy statements, and annual budget estimates, in accordance with the government's medium-term planning framework. It should also describe the rules leading to the establishment of budget ceilings as well as the process for developing, considering, and approving new budget spending proposals. The section should specify the regulations governing the execution of the budget, including grant of credit, budget release, multi-year commitments and commitment control, carry-over rules, virements, supplementary estimates, and in-year reporting.

Contingencies fund

This part should expand on the procedures for accessing the contingencies fund, including the definition of "disaster", and who is responsible for declaring a disaster and authorizing release of the disaster portion of the fund.

Cash, asset, and liability management

This part should explain the operations of the Treasury Single Account (TSA), including the scope and coverage of the Consolidated fund (UCF). It should provide detail as to the conditions for setting up special funds. It should include provisions for opening, maintaining, and closing bank accounts as well as bank reconciliation to the general ledger. It should specify the rules, procedures and responsibilities for issuing loans, guarantees, and write-offs. Requirements for public-private partnerships, public investment planning and management, and non-financial assets should also be included here.

Accounting and audit

This part should include provisions related to the design, adoption, and maintenance of the chart of accounts. It should also regulate accounting issues not covered in the Bill, such as the responsibility for setting accounting standards and associated accounting policies. The obligation to provide access to accounting information and records may be prescribed here. On external audit, any provisions deemed necessary in the context of the PFM system, should be covered.

Petroleum revenue management

This part should specify and clarify the provisions in the law relating to the objectives of the fund, including an exhaustive definition of *all* revenues payable into the fund, the banking and accounting, audit, and reporting requirements, to address the lack of clarity and gaps in the Bill. It should enhance the minimum standards for qualifying investments, and risk management and reporting. It should also require the Investment Advisory Committee to prepare an investment policy in line with the regulations.

Roles and responsibilities

This part should set out responsibilities for all significant aspects of the public financial management system in Uganda. In line with the coverage of the law, it should define the responsibilities of accounting officers, chief executive officers of public corporations, state enterprises, and special funds as well as local government chief accounting officers.

C. Summary of Recommendations

12. The mission recommends that the MoFPED should:

- Recommendation 1.1: Set up a drafting committee representing each functional area to guide the development of the regulations to the act as proposed;
- Recommendation 1.2: Present regulations to Cabinet for approval; and
- Recommendation 1.3: Conduct training on the changes to regulations to key PFM actors, once approved.

An outline for the regulations is set out in more detail in Appendix I.

II. CHARTER OF FISCAL RESPONSIBILITY

A. Introduction

13. The charter of fiscal responsibility plays a key role in the new Ugandan framework for managing the public finances. Well designed fiscal objectives or rules, specified in the

Charter and then put into operation through the Budget Framework Paper (BFP) and annual budget process, can provide a useful check against a bias towards increased expenditure and deficits. This check will be crucial for Uganda as petroleum revenues begin to flow into the public finances. As importantly, a Charter which requires high levels of fiscal transparency in reporting on performance against those objectives, should improve the regular operation of fiscal policy by increasing the executive's accountability to Parliament and the public, for good fiscal management.

B. Role of the Charter in the Fiscal Framework

14. The role of the Charter in the fiscal framework should be to:

- Set enduring measurable fiscal objectives that will guide the detailed fiscal strategy set annually in the BFP, and constrain budget making from year-to-year. These objectives are the main mechanism translating the fiscal principles in the PFM Bill into concrete action.
- Specify the detailed reporting arrangements against those objectives that will promote the maximum transparency for outside observers. That will enhance the credibility of those objectives as a constraint, both within the government and to outside observers.

Currently, the PFM Bill broadly achieves this aim, and is subject to the comments made on fiscal principles in the previous section.

C. Choice of Fiscal Objectives

15. The choice of fiscal objectives in the Charter needs to support fiscal discipline in a way that is appropriate to Uganda's current circumstances. Those notably include the likelihood of a significant influx of oil revenues in the near future. The "resource curse" associated with these revenues in other countries is widely recognized, and is a key motivation for the authorities in establishing a more effective PFM framework. These revenues, along with Uganda's currently relatively low debt level as a result of recent debt relief, also make the East African Community monetary union convergence criteria alone an inappropriate basis for setting fiscal objectives.

Deficit limits

16. Previous FAD advice[3], on the basis of international experience with fiscal frameworks, suggested that measurable fiscal objectives are most effective and durable when they:

[3] "Towards an Integrated Legal Framework for Public Financial Management", Richard Hughes, Duncan Last, Guy Anderson, and Benoit Chevauchez, December 2010.

- Can be clearly explained to policy-makers and assessed by the public (**simplicity**);
- Provide an unambiguous guide for setting the annual fiscal stance (**operability**);
- Allow fiscal policy to stabilize macroeconomic fluctuations (**counter-cyclicality**);
- Facilitate multi-year expenditure planning, and minimize sudden and disruptive changes in the levels of taxation or expenditure (**medium term**); and
- Ensure fairness between generations (**sustainability**).

17. Previous advice concluded that targeting a variant of the non-resource, non-grant or "domestic" balance would likely be appropriate in Uganda. The PFM Bill includes the principles that the fiscal balance without petroleum revenues should be maintained at a sustainable level over the medium term, and the government should maintain prudent and sustainable levels of public debt. The key measurable fiscal objectives in the Charter should operationalize these principles.[4]

18. Placing a clear annual ceiling on the non-oil, non-grant deficit as a share of GDP is simple, and will help promote fiscal discipline. As elsewhere in the world, there is a trade-off between the simplicity and operability of the rule, and the extent to which it can allow counter-cyclicality of fiscal policy.

19. An annual ceiling does not, of itself, take account of cyclical developments in the economy. The absence of a sufficient planning buffer against the ceiling, could result in either pro-cyclical fiscal policy or a frequent resort to the deviation clause for suspending the Charter in the PFM Bill. This could weaken the credibility of the Charter as a constraint on policymakers. Typically this problem is dealt with either through:

- **The use of a cyclically-adjusted fiscal balance (e.g., in Chile and Norway).** The drawback of this approach is the complexity and potential lack of transparency in a "black box" cyclical adjustment; or
- **By specifying that the target operates over a pre-defined medium term (e.g., at a three-year horizon).** The drawback of this approach is that it does not place an unambiguous constraint on expenditure in the most important year, the financial year to be decided in the upcoming annual budget. It would permanently allow a deficit above the ceiling, so long as later years expected it to be corrected. This deprives the finance ministry of an important card in negotiating overall expenditure levels, and also means that overspending in-year can never breach the target.

20. An alternative is to specify an annual limit, but with a pre-defined two- or three-year correction period where unexpected revenue shortfalls, as a result of a cyclical downturn, take the deficit above the limit. In that event, there would be no suspension of the

[4] Technical assistance can be provided by AFRITAC East to assist in setting and monitoring the objectives.

Charter under the PFM Act, as long as the pre-defined correction was planned. If, however, the excess deficit was a result of increased spending, for example as a result of a national emergency or major disaster, then the deviation clause in the PFM Act would need to be brought into effect. This formulation provides unambiguous guidance on the next year's annual fiscal stance, so long as the rule is currently being met, but avoids the rule being excessively pro-cyclical.

21. An annual limit does not provide flexibility for the government to exceed the ceiling in a given year or years, if it believes that there are investment or development projects that are of sufficiently high value to justify a higher deficit. The EAC are considering whether a category of such exceptional infrastructure projects could be defined and an exemption allowed. We would not recommend including such an exemption in the deficit objective, because of the potential for its exploitation as a "loophole" in the framework. Instead, the level of the deficit ceiling should be set with the balance of development spending and fiscal sustainability in mind, and potential projects prioritized and sequenced over the medium term to live within that ceiling.

22. The level of the non-petroleum deficit limit is a crucial medium-term fiscal decision. Given constraints on the level of public debt, it effectively defines the pace at which Uganda's natural resource assets will be depleted through transfers from the Petroleum Fund. The fiscal principles in the PFM Bill require the government to manage petroleum resources and other finite natural resources for the benefit of current and future generations. Previous FAD advice[5] recommended that the level of the target be set by anchoring it to the principle that the estimated benefits of resource revenue and external grants be kept constant over a fixed 40 or 60 year "catch up" period—i.e., constant between the next 2 or 3 generations. This remains a good principle for determining the target in the Charter.

23. A ceiling on the non-petroleum deficit set in this way should be the primary fiscal objective guiding policy setting. However, for the period prior to significant oil revenue coming on-stream, it is likely to be inappropriately loose. It will effectively allow the government to borrow more now in anticipation of revenues that have not yet materialized, and whose size and timing is inherently volatile and uncertain. Consequently, the government should consider, at least in the first Charter adopted, supplementing it with a ceiling consistent with the EAC monetary union deficit limit, applied in the same manner. That would support prudent management of oil revenues by preventing excessive borrowing in anticipation of their arrival, and help support convergence with the EAC limits.

Debt limits

24. Measurable fiscal objectives on the level of public debt should operationalize the fiscal principle in the PFM Bill that debt must be maintained at a prudent and sustainable level. Adopting in the Charter a hard annual ceiling on gross public debt, potentially making

[5] Ibid.

reference to the ceiling in the EAC convergence criteria, is a natural way of doing so. However, given the tendency for public debt levels to be very volatile in the face of a shock, and the headroom Uganda currently has against the 50 percent EAC ceiling, we recommend targeting fiscal policy to maintain a buffer beneath that hard debt ceiling. This can be done by setting a lower target ceiling for public debt, at the end of the five-year forecast horizon, along with an additional requirement that public debt be projected to fall as a share of GDP by that point.

25. The level of the target ceiling needs to be chosen carefully, and in light of decisions on the deficit ceiling. However, it should provide a sufficiently large buffer to allow space for the public finances to absorb a large shock without breaching the 50 percent ceiling. It should also be set at a level that prevents fiscal planning being based on sharply rising debt ratios over the short to medium term. The government should consider whether the lower target should be set on nominal debt as a share of GDP, rather than in NPV terms. This would be a simpler and more transparent measure.

Supplementary targets

26. Supplementary targets, in addition to these primary deficit and debt targets, could further encourage sound management of the public finances. Particular areas where the government has been considering targets in the Charter are:

- Efforts to improve revenue collection; and
- Explicit limitations on withdrawals from the Petroleum Fund, including linking the funds to investment or infrastructure expenditures.

27. The government's aim to increase the revenue to GDP ratio over time, from its current very low levels, could be included as an objective in the Charter. This would help hold the government to account. However, the authorities should be cautious in including this target in the Charter on two counts:

- They should avoid a situation where fiscal and expenditure plans are set on the basis of assumed improvements in revenue collection in line with a fixed target. Failures to improve collection—an item not fully in control of the revenue authorities—in line with the target will result in expectations of expenditure that are too high to be financed from actually available revenue, putting the deficit ceiling at risk.
- Including a suitably stretching numerical target in the Charter on revenue to GDP increases will mean a significant risk that the authorities fall short of it in any given year. That could mean frequent invocation of the deviation clause in the law suspending the Charter, again, damaging its credibility.

28. If the Charter contains a target on improved revenue collection, it should explicitly require the revenue forecasts used in the BFP and budget process to be prudent and

realistic. They should be based not on the target but only on (i) concrete and properly costed tax policy measures to increase revenue and (ii) realistic assumptions about success in improved revenue collection. Revenue forecasts should not be based simply on the assumption that the target will be met. The government should instead consider adopting a fixed cautious forecasting assumption, that improvement in revenue collection and reductions in the tax gap should only be included in forward projections when they have been successfully realized in outturn figures (see below, paragraph 34 for further discussion of revenue forecasting in the Charter). Any additional revenues realized above forecast should be subject to the supplementary budget provisions as provided for in the draft Bill and supporting regulations.

29. The primary constraint on excessively front-loaded spending of oil resources should be the deficit ceiling calculated excluding petroleum revenues. However, an additional constraint in the Charter on withdrawals from the Petroleum Fund and/or the kinds of expenditure items that can be financed by them could potentially be a helpful addition. There are a range of forms such a target could take, including:

- **A cash ceiling on the amount of resources that can be appropriated from the Petroleum Fund in each financial year.** This would determine the split between Petroleum resources and government debt that finances the non-oil deficit. It could be a fixed amount, or linked to the level of in-year revenues so as to ensure a steady build up of the fund for future generations;
- **A specific floor on government investment spending,** helping to ensure that the resources funded by the higher non-oil deficit do not leak into recurrent expenditure; and
- **A less tightly drawn link requiring that the government only appropriate resources from the Petroleum Fund, where they are to be used to finance capital investment.** Given that cash is fungible, this target would be largely presentational. However, it could still potentially be helpful in establishing in the public mind the need for oil resources to be managed sensibly for the benefit of future generations.

Definition of fiscal aggregates

30. The coverage and definition of fiscal aggregates used to measure fiscal objectives in the Charter must be clearly specified, and as far as possible determined independently of the government. This reduces the potential pressure to engage in "creative accounting" of expenditure to move it outside the deficit ceilings. This is important to ensure the transparency and external credibility of the constraint they are designed to impose.

31. Targets should be based on fiscal aggregates, compiled using an international standard such as SNA95 or GFSM 2001. Where possible, they should be based on consolidated general government, with prudent forecasting of those elements of the consolidated general government not directly controlled through the annual budget. Concepts such as "petroleum revenues" and "grants" should be clearly defined and their data source specified. In the case of petroleum revenues, this can be by reference to the definition and reporting in the PFM Bill.

D. Specifying the Operation of Fiscal Policy in the Charter

32. The Charter should set out and explain the basic operation of fiscal policy to support delivery of the objectives. It should explain the purpose of the timetable and processes for making fiscal policy set out in the PFM Bill.

Top-down budgeting

33. The Charter should clearly enshrine the top-down budgeting process which is implied by the provisions in the PFM Bill, and which is designed to further fiscal control and proper prioritization of expenditure.[6] In particular, it should explain and set out the purpose of:

- The Charter first setting measurable fiscal objectives to operationalize the principles set out in the PFM Bill;
- The BFP, next, establishing a set of medium-term expenditure ceilings, for each of the next five financial years based on the objectives in the Charter and a prudent macro-economic and fiscal forecast;
- The annual budget, then, allocating funds to particular sectors for the coming financial year within the expenditure ceiling fixed in the BFP;
- Sector ministries, then, prioritizing the use of their resources within their fixed budgets as approved by Parliament; and
- Proper reporting and accountability on the execution of those budgets.

Prudent revenue forecasting

34. For a framework based on measurable fiscal objectives and a medium-term expenditure framework to be effective in improving fiscal control, it is crucial that revenue forecasting is prudent and realistic. Persistent over-optimism on revenue forecasts significantly damages the credibility of such frameworks. As a prospective oil-exporter, Uganda will face particular challenges. Added to the inherent volatility of oil prices and uncertainty of production volumes, is the temptation toward optimism on these prospects as a means of increasing the planning envelope for future budgets.

35. The Charter should establish mechanisms to help ensure fiscal policy is based on prudent revenue estimates. At a minimum, this should include the requirement that forecasts

---

[6] See "Top-Down Budgeting - An Instrument to Strengthen Budget Management", Gösta Ljungman, IMF Fiscal Affairs Department Working Paper, November 2009.

be based only on announced revenue policies, transparently published revenue forecast determinants linked to the macroeconomic forecast, and a cautious approach to anticipating potential improvements in revenue collection. Increased transparency over the assumptions behind the forecast, and a clear presentation of the forecasting record can help correct and control forecast biases. This should be a central requirement of the Charter (see Section E below).

36. Further, the Charter should require a comprehensive and quantified fiscal risk statement. This should show both the sensitivity of the fiscal balances to alternative macroeconomic assumptions, including in particular alternative assumptions over oil prices and revenues, but also the impact of the realization of discrete fiscal risks. These should include guaranteed loans, state-owned enterprises, local governments, PPPs, and tax expenditures. Box 1 suggests contents for a fiscal risk statement in line with those discussed in the context of the East African Monetary Union.

Box 1. Uganda: Suggested Contents of a Fiscal Risk Statement

Macro-Fiscal Sensitivity Analysis
Discussion of the macroeconomic forecasting record in recent years, comparing the assumptions used in budget forecasts against actual outcomes.

Sensitivity of aggregate revenues and expenditures to variations in each of the key economic assumptions on which the budget is based (e.g., impact of exchange rates and interest rates on revenues and expenditures), with explanation of underlying mechanisms. Possible methods and presentational devices include alternative scenarios or fan charts. In conducting these exercises, it is desirable to take into account the correlations among different shocks.

Public Debt Sustainability Analysis
Sensitivity of public debt levels and debt servicing costs to variations in assumptions regarding e.g., exchange rates and interest rates. Impact of debt management strategy on the government's risk exposure.

Policy and institutional framework for government borrowing and on-lending: projected statement of inflows, outflows, and balances; and disposition of loan repayments and nonperforming loans.

Specific Fiscal Risks
Discussion of discrete sources of risk to the government's fiscal forecast, including:

Contingent Liabilities: Expected value and government's gross exposure to contingent liabilities—especially central government guarantees (e.g., to public enterprises); reporting to include broad groups of guarantees, but also any major individual guarantees. Rationale and criteria for the provision of guarantees.

Banking sector: Deposit insurance schemes and—to the extent that the authorities feel this does not generate moral hazard—risks from the banking sector. Information on costs of past bailouts/recapitalizations/preemptive financial support.

Legal action against the central government: Past claims (including amounts) and the face value of current claims, including a disclaimer that reporting the risk does not indicate government acknowledgement of liability.

Natural Disasters: Fiscal impact of disasters in recent years. Level and operation of possible contingency reserve for natural disasters (if applicable).

Sub-National Governments
Legal framework for intergovernmental fiscal relations, and summary of recent aggregate sub national government financial performance and financial position.

State-Owned Enterprises
Policy framework for SOEs (pricing policy and dividend policy). Financial performance and position of the SOE sector and the largest SOEs.

37. Finally, the government should consider further policy options that can support the realism and credibility of forecasts. This could include:

- **Pre-committing to the use of specific forecasting assumptions designed to be prudent.** Examples include using historical averages or external consensus forecasts for oil prices, and basing revenue projections on the assumption of flat rather than improving tax gaps;
- **Developing a deliberately cautious forecast for planning purposes,** set below the government's central forecast;
- **Requiring external validation/auditing of key forecast assumptions,** for example by the Parliamentary Budget Office or the Economic Policy Research Council; and
- **Explicitly comparing forecasts with those of other institutions.**

E. Reporting and Accountability

38. The Charter should specify the timetable and minimum content of reporting on performance against fiscal targets, to ensure it remains transparent and the government is accountable.

Timetable for reporting

39. The timetable for reporting should be clear, based on the provisions in the PFM Act, and avoid excessive updating of fiscal forecasts. The government should produce full macroeconomic and fiscal forecasts and report on performance against the objectives in the Charter in the following documents:

- The annual Budget Framework Paper, published by the end of March.
- A Half-Year Fiscal and Economic Update, published no later than the end of October.
- A Full-Year Final Report on Fiscal and Economic Outturns. This should be published when final outturn data on the fiscal aggregates is available. Ideally it should be timed to coincide with (or form part of) the annual Budget Framework Paper.

40. The current reporting timetable could be streamlined. At present the PFM Bill (section 14 and 16) requires economic and fiscal updates by the end of February and the end of October. To reduce the burden on staff producing economic and fiscal forecasts, the first of these public updates should be aligned with the BFP projections (approved by Parliament by end-February, section 9).

Content of reports

41. The Charter should specify minimum content for reports. The PFM Act specifies basic requirements, but the Charter can and should enlarge the list as:

- The aggregates that have to be explicitly forecasted and published will depend on the targets set in Charter; and
- Forecasting approaches can evolve, with particular issues rising and falling in importance over time (as for example forecasting of oil revenues will soon become crucial to Uganda's fiscal forecasts). Updating the specific requirements in the Charter allows more flexibility than including them in the Act, but still provides the necessary assurance of continued transparency.

42. The mission discussed the contents of the Charter with a working group of officials. The draft Charter in Appendix II (attached as a separate document) sets out a specification for minimum requirements for the forecast. It is particularly important that the specified reporting on oil revenues and future production, and forecasts for public debt and its future evolution, are included.

43. The Charter should also specify some key analytical tables, to help Parliament and the public hold the government to account for performance against the objectives. These should include:

- Comparisons to outside, independent forecasts;
- Comparisons to previous official forecasts, with explanations for changes separating them into policy changes, changes to economic determinants, and other changes;
- Transparent tables setting out the key fiscal determinants, and their changes since the previous forecast, to assist in understanding reasons for revenue deviations;
- Data on budget execution; and
- Sensitivity analysis and alternative scenarios for the fiscal aggregates under different assumptions from the baseline, as part of the fiscal risk statement discussed above (paragraph 37).

F. Summary of Recommendations

44. The mission makes the following recommendations:

- Recommendation 2.1: We recommend placing an annual limit on the non-resource, non-grant fiscal deficit, with a pre-defined two-year correction period where the limit is breached as a result of unexpected revenue shortfalls.
- Recommendation 2.2: In setting a target for the non-resource, non-grant balance the government should consider adopting the principle that it should keep the estimated benefits of oil revenues and grants constant between generations.
- Recommendation 2.3: The Charter should adopt a hard ceiling on gross public debt, potentially making reference to the EAMU convergence criteria, applying in every financial

year. However, it should also include a lower target level for public debt over the medium term.

- Recommendation 2.4: If the Charter contains a target on improved revenue collection, it should explicitly require the revenue forecasts used in the BFP and budget process to be based not on the target, but only on (i) concrete and properly costed tax policy measures to increase revenue and (ii) realistic assumptions about success in improved revenue collection.
- Recommendation 2.5: The government should consider potential forms for an objective on withdrawals from the Petroleum Fund, but be careful to ensure such an objective does not unintentionally undermine the main deficit constraint on excessive front-loading of their usage.
- Recommendation 2.6: Targets should be based on fiscal aggregates compiled using an international standard such as SNA95 or GFSM 2001.
- Recommendation 2.7: The Charter should establish institutional mechanisms to help ensure fiscal policy is based on prudent revenue estimates.
- Recommendation 2.8: We recommend the government produce full macroeconomic and fiscal forecasts and report on performance against the fiscal objectives twice a year, in the BFP and a half-year update. The annual budget should be based on the BFP forecasts.
- Recommendation 2.9: The Charter should specify the minimum content for fiscal reports, in line with the draft Charter included in Appendix II.

III. PETROLEUM REVENUE MANAGEMENT

A. Introduction

45. Provisions for the Petroleum Fund have been made in the PFM Bill. There are weaknesses in the governance and accountability provisions when compared to the Santiago Principles for Wealth Funds.[7] These are commented on in Appendix III. The main issues are set out below.

46. Proceeding with the Bill as it is currently drafted will present considerable risks. The issues with this part of the Bill are extensive and include problems that may undermine the potential effectiveness of public finances. The Bill is still being discussed and changed in the parliamentary committee process currently underway. It is important that the version that emerges from that process is tested against the Santiago principles and the detailed list of issues in Appendix III. The final version should deal with the issues raised, given that many of the issues cannot be dealt with by regulation.

[7] Principles from The International Working Group on Sovereign Wealth Funds made up of 26 countries with wealth funds. http://www.iwg-swf.org/pubs/gapplist.htm

Objectives for the Petroleum Fund

47. There are no objectives for the Petroleum Fund. In the absence of these, there is little guidance for the government in making decisions about the transfers to the annual budget, apart from the fiscal principles which are currently not well specified nor properly linked to the decision making provisions in the Bill and any implicit restrictions placed by the Charter (as noted in Appendix II). Even when improved, these principles apply to the management of all the government monies, while the Petroleum Fund should have its own objectives.

48. An example of a suitable objective that could be included in the PFM Bill is as follows. The Petroleum Fund is to ensure that petroleum revenues are used for the benefit of both current and future generations. This is done by providing stable and sustainable disbursements to the central government budget through the Consolidated Fund, and investing the remaining revenue for utilization in future budgets.[8]

The nature of the Petroleum Fund

49. The exact nature of the Petroleum Fund is unclear due to a lack of precision in the definitions part of the Bill and various clauses.[9] The Bill states that petroleum revenues may only be used for the financing of infrastructure and development projects, and not recurrent expenditures, but this does not define the purpose of the Fund. This lack of clarity was confirmed in discussions with officials who had different understandings of the Petroleum Fund as being (i) a fund that holds the Petroleum Revenues transferred from the Uganda Revenue Authority (URA) and an Investment Portfolio managed by the BoU; or (ii) only the investment portfolio managed by the BoU. While regulations can deal with banking and transfer arrangements, they cannot resolve the confusion in the Bill over the nature of the Fund.

50. The arrangements in the PFM Bill lack the protections of having an independent and well-constituted governance board tasked with achieving the objectives. Instead the governance function sits with the Minister of Finance who is required to: make the agreement with the BoU to manage the funds, appoint the Investment Advisory Committee, approve the Investment Policy, monitor the performance of the BoU with regard to the Fund (including thought the reports of the BoU and the Investment Advisory Committee), monitor the Accountant General/PS/ST/BoU with regard to transactions relating to the Fund, approve the Annual Plan for the Fund, and approve the Annual Report of the Fund.

---

[8] Another example of objectives for petroleum funds would be the Ghana petroleum Revenue Management Act which specifies both stabilization objectives and future generations objectives, available at

[9] There are two inconsistent definitions of the Petroleum Fund in clause 4; one as an account and one as a fund in the BoU (clause 51). Given these definitions, then the withdrawal provisions in clause 57 do not make sense as they relate to a government account and not a BoU investment fund, as per one of the definitions. If the Fund is defined as only the investment fund, then a withdrawal from a BoU account is not going to be an appropriation as specified in clause 57.

51. The Minister's roles are extensive and time consuming, and may present tensions between the short term budget demands and those of the Fund. If some of these roles are delegated, this may place too much responsibility on officials who may have official roles that conflict with the, currently unspecified, objectives of the Fund. For example, there is an obvious tension between meeting short-term budget demands and the longer-term objective that should be applied to the Fund of preserving wealth for future generations.

Revenues from investments

52. The PFM Bill does not require all revenues, income, dividends, proceeds, gains, earnings, or other moneys or assets received from the investment of Petroleum Fund to be retained within and constituted as a part of the Petroleum Fund. These revenues should include: (a) interest on deposits and securities; (b) dividends; (c) proceeds from the sale of stocks and shares; and (d) earning from derivative transactions.

Investment Advisory Committee and investments

53. The Investment Advisory Committee is not constituted in a way to ensure that it fulfills its functions. Instead of consisting of experts on investment policy, markets, and performance, two of the five positions are allocated to the Secretary to the Treasury and the Permanent Secretary of the Ministry responsible for Petroleum activities, or their representatives. It is crucial that positions are filled by representatives with the "substantial experience, training, and expertise in financial investments, portfolio management, or investment law" that is required for each member by clause 65 (4). This will inevitably imply that individuals with appropriate skills will need to be recruited, rather than sourced from civil servants within the respective ministries. Established civil servants may also have responsibilities that conflict with the objectives of the Fund, such as pressures to invest in development projects or local investments that may expose the resources of the Petroleum Fund to unacceptable levels of risk.[10]

54. The prohibitions on risky investments in clause 61 of the PFM Bill are too limited and should be extended, so that the Investment Advisory Committee cannot include them in the investment policy to be approved by the Minister. The Bill should specify the acceptable issuers of an internationally convertible currency deposit or a debt instrument denominated in any internationally convertible currency. There should also be a requirement to have an investment grade rating for the central banks of other countries when investing in their interest bearing instruments. A limitation could be specified in the percentage of the portfolio that can be in securities and the acceptable stock exchanges for those securities. Further limitations could be placed on the use of derivatives.

[10] This does not mean that civil servants cannot be appointed. If they meet the criteria, then they can be appointed but they should be free of conflicts of interest.

55. A prohibition can be added that Petroleum Fund resources shall not be invested in any instrument issued by a bank, corporation, or individual resident in Uganda or owned or controlled by a Ugandan national or company registered in Uganda. This would help protect the Petroleum Fund from being used as a development fund, as the development aspects can occur through the transfers from the Petroleum Fund appropriated each year as part of the annual budget, while the Fund itself is protected by suitable investment provision to preserve it for future generations.

Withdrawals

56. Protections from unauthorized withdrawals are missing. This could be achieved by requiring that the funds that are withdrawn in breach of clause 57 shall be treated as losses of public money. The PFM Bill is not adequate in its treatment of losses and unless other laws cover this to permit timely recovery of losses from civil servants, public office holders, and private sector individuals and entities, then the Bill should be strengthened by adding suitable provisions.

Planning, reporting, and auditing requirements

57. The planning and reporting provisions should be complementary and well specified. This is not the position in the PFM Bill. There is an annual plan by the BoU for the petroleum revenue investments, which is approved by the Minister and Parliament (clause 69). There are three reporting authorities: the BoU which prepares semiannual and annual reports including financial statements for the investment funds (clause 67 and 70); the Accountant General who prepares semiannual and annual accounts for the Fund (clause 59); and the Minister who reports to Parliament on transfers, sources, volumes, and value of petroleum revenues and who tables the financial statements (clause 60).

58. If the Fund was constituted as an institution with a governing board, there could be an Annual Plan from the Board and an Annual Report that covered the performance of the Fund against its objectives and included the results of the investment portfolio. The BoU would report to the Board and the public on the performance of the investment portfolio and flows in and out of the investment portfolio. The Accountant General would report on the transactions relating to the Consolidated Fund, for use in funding the annual budget.

59. Since there is to be no governing board, as envisaged in the current draft of the Bill, the current planning and reporting provisions will need to be expanded in the regulations. The annual report on the Petroleum Fund prepared by the Accountant General should include the requirements that are currently applied to the Minister's report, and should include other requirements such as an explanation of how the Fund is performing against its objective. The Minister could table this report in Parliament.

60. The PFM Bill does not require the BoU to report against suitable benchmarks. The publicly available monthly reports should be against benchmarks, with more comprehensive benchmarking information in the BoU's annual report. The specific benchmarks can be set in the investment policy and/or in regulation, but the requirement to have them should be in the Bill.

61. The audit provisions in the PFM Bill need to be strengthened to reflect the specialist nature of audit of investment funds. There should be a requirement for the petroleum revenue investment funds managed by the BoU to be audited by an audit committee of independent and highly qualified members, with reports to be periodic and annual, and publicly available. This is specialized auditing to give assurance about the operations of the investment portfolio, and would be in addition to the statutory external audit by the Auditor General or his agents.

Other provisions

62. The mechanisms for transfer of the seven percent of petroleum revenues specified in the Bill to local governments are inflexible, should forecasts be inaccurate. The transfers are appropriated in the annual budget based on forecasts of the petroleum revenues. There is no mechanism in the Bill for dealing with situations where the actual revenues vary from the forecast revenues. The regulations should include the process for dealing with significant variances, if these cannot be absorbed by the central government.

63. The PFM Bill provides for a Petroleum Pricing and Valuation Committee, but does not include essential requirements regarding this committee. At a minimum, the PFM Bill should set out the membership, appointment provisions, terms and conditions for members, functions, powers and reporting requirements. If it is simply an internal government advisory committee made up of public officials, then it may not need to be specified in the Bill and could be dealt with in regulations.

B. Implementation Issues

64. The implementation of the Petroleum Fund will require the development of committees, a contract with the BoU, policies, and changes to systems and processes and other capabilities. Table 2 notes the developments required by the MoFPED and comments on the resources and timeframes. The BoU will also have considerable development work to do, to set itself up to fulfill the function of the manager of the investment funds. The Revenue Authority and the ministry responsible for petroleum will also have development work, which is not covered in this report.

Table 2. Uganda: Activities to Set Up the Petroleum Fund

Activity	Responsible Entity	Resources	Timing
1. Include the Fund in the fiscal policy, and annual budget documents and reports	MoFPED	MoFPED staff	As per the PFM Bill
3. Set up the Investment Advisory Committee and secretariat services	BoU and MoFPED	MoFPED and BoU staff	July 2014
4. Development of investment policy	Investment Advisory Committee	Will need BoU, MoFPED, and external advice	December 2014
5. Set up the Valuation and Pricing Committee and secretariat services	Relevant ministries	Should be able to be done by current staff	July 2014
6. Allocate roles and responsibilities within MoFPED to support Minister's functions (appointment to committees, planning, budget allocation to local government of petroleum revenues, reporting, monitoring, approving policy, appointing committee, etc.) and undertake these functions	PS/ST	Assess whether the MoFPED has skills required and if not, consider options to access these skills. There could be considerable work in supporting the Minister in this technically complex area.	July 2014
7. Develop agreement with BoU	MoFPED and BoU	Current MoFPED and BoU staff with some input from qualified advisers	October 2014

C. Summary of Recommendations

65. The PFM Bill could be amended to:

- Recommendation 3.1: Specify the objectives of the Fund;
- Recommendation 3.2: Fully define the revenues of the Fund to include the earnings on investments;
- Recommendation 3.3: Remove the civil servant positions designated by office on the Investment Advisory Committee and add the requirement that appointees are not to have conflicts of interest with their functions;
- Recommendation 3.4: Extend the prohibited investments to ensure the fund is adequately protected (as suggested above);
- Recommendation 3.5: Specify that withdrawals that are not in accordance with the law are to be treated as public losses and ensure that there are adequate provisions in the law to recover such losses;
- Recommendation 3.6: Improve and further define in regulations, the planning and reporting requirements so there are suitable and consistent requirements including rationalizing the

Accountant General's and Minister's reports and making the contents of the BoU report more suited to investment portfolio reporting, including benchmark reporting;

- Recommendation 3.7: Provide for suitable auditing provisions for the investment portfolio;
- Recommendation 3.8: Provide for dealing with differences in the appropriations to local government and the actual revenues of the fund or deal with this in regulations;
- Recommendation 3.9: Set out the basic provisions for the Petroleum Pricing and Valuation Committee with the detail to be covered by regulations if necessary;
- Recommendation 3.10: Ensure that the drafting issues and errors in the Bill are addressed before the Bill is passed into law (see Appendix I);
- Recommendation 3.11: Plan the implementation of the Fund and related matters; and
- Recommendation 3.12: Develop supporting regulations once the Bill is finalized so the regulations can be tightly linked to the provisions of the forthcoming Act.

IV. CASH MANAGEMENT AND TREASURY SINGLE ACCOUNT

A. Introduction

66. Good progress has been achieved since June 2013, providing a sound platform for extending the TSA and for introducing cash management reforms.[11] The bank account structure has been revised to include a UCF Account and decentralized zero-balanced Vote sub-accounts to facilitate payments. All UCF revenues are credited to the UCF Account and spending limits distributed from it on a quarterly basis to a UCF Holding Account. Cash is transferred to the Vote sub-accounts based on payment listings generated through the IFMS and prior to the payments being finalized. The IFMS-generated payments are made by electronic fund transfers on the same day as the cash transfers; any close of business balance on the Vote sub-account is swept back to the UCF Holding Account.

67. Restructuring the government's bank accounts has benefitted from complementary initiatives. These have comprised several technical and process changes, including: enhanced IFMS functionality to support the revised banking arrangements and security functions;

[11] Since 2010 FAD and AFRITAC East have provided guidance on the introduction of a TSA. Most recently, a mission in February 2013 presented the TSA principles and options, suggested a structure suitable for Uganda, and assisted in the development of a concept paper mission in June 2013, addressing MoFPED and BoU technical concerns and suggesting a phased implementation approach. It proposed an initial phase to concentrate on restructuring the locally-denominated bank accounts held in the BoU and operated in respect of national government Votes using the IFMS and which form part of the Uganda Consolidated Fund (UCF). Subsequent phases were suggested to progressively extend the coverage of the TSA to encompass the balances of project accounts, deposits, local governments, and autonomous bodies.

reconfiguring the core banking application to support the required bank account structure and the GoU requirements for transaction processing; payroll processing decentralized to the accounting officers; changes in the budget fund release process; and improved interfaces enabling straight through processing (STP) for domestic payments. Implementing the restructure also benefitted from extensive change management activities including the wide dissemination of a TSA concept paper and TSA guidelines, the delivery of associated training, the closure of dormant and redundant bank accounts, and the appointment of a US Treasury resident advisor to provide ongoing technical assistance.

68. **The MoFPED and the BoU cite a number of tangible improvements resulting from the combination of changes.** In particular, these include enhancements in the security and efficiency of transactional processing for payroll and supplier payments, timelier reconciliation of a smaller number of bank accounts, and improved planning for service delivery from quarterly fund releases. However, realizing benefits from aggregating government cash balances and moving from the current “cash rationing” basis for fund release will take longer.

69. **The MoFPED is keen to build on the current momentum to extend the TSA arrangement.** Amongst its immediate ambitions are plans to: expand the TSA coverage to include project and other funds; further reduce and rationalize the number and location of operational bank accounts; complete the decentralization of the payroll; further enhance the IFMS/core banking functionality and interfacing, to enable STP of foreign payment transactions; formalize the relationships between the GoU and BoU in a series of service level agreements (SLAs); and commence building cash management capacity. The remainder of this section concentrates on providing guidance for expanding the TSA.

B. Implementation Issues

70. **Extending the TSA to encompass project funds will need to be accompanied by changes to the TSA structure and additional change management measures.** Modifications will be required to address constraints in the TSA’s current design especially to: recognize the role of the UCF and its relationship to the aggregate TSA balance; include alternative TSA tools for managing the cash pertaining to projects, donor, and extra-budgetary funds; and review the efficacy of the daily advances to the operational Vote sub-accounts. Change activities will need to identify and cater for the requirements of development partners in accounting for the receipt and application of project funds. Box 2 summarizes international experience from Mozambique on incorporating projects into the TSA; the mission has drawn upon those lessons learned to suggest the TSA design and the processes necessary for expanding the TSA coverage to donor projects.

Box 2. Mozambique's Experience of Extending the Treasury Single Account to Projects

Mozambique is heavily dependent on external assistance with approximately 35 percent of its budget funded through external sources, much of which is project-related. After establishing a core TSA, Mozambique sought to expand its coverage to include the balances and transactions of externally funded project accounts.

Currently, foreign currency project funds are aggregated in separate TSAs, denominated in three major currencies: US dollar, Euros, and South African Rand. Foreign currency project expenditures are transacted through the IFMIS (referred to in Mozambique as the e-SISTAFE) and the foreign currency TSAs. Foreign funds converted for local spending are credited to the main TSA denominated in Mozambique currency (MZM).

Significant success has been achieved in expanding Mozambique's TSA in this way with the TSA coverage increasing from less than 20 percent of externally funded budget execution in 2008, to 47 percent in 2013. A number of features were key in persuading development partners to channel project funding through the TSA. These include:

- **A robust accounting system** supporting the TSA and satisfying the development partners' accountability and reporting requirements;
- **Effective change management** to convince development partners of the combined abilities of the IFMIS and TSA to ensure their project funds can only be applied to the intended purposes, will be available when required and subject to a full accountability framework;
- **Piloting** to ensure the combined TSA and IFMIS functionality meets donor requirements, and allow for subsequent system modifications to include additional analysis and reporting;
- **A well-structured chart of account** including a Source of Fund classification segment which, when combined with other segments, enables donor funds to be ring-fenced for particular purposes;
- **A flexible project-specific classification segment** allowing donors and project managers discretion to introduce unique values to support donor-specific reporting requirements;
- **Functionality for executing foreign currency transactions** through the IFMIS and the appropriate foreign currency TSA, improving the efficiency and direct accounting for transactions, and reducing the risk of exchange rate variation; and
- **Revisions in budget management practices** supporting the year-end rollover of unutilized donor-funded budgets, recognizing the impact of significant exchange rate variations, and allowing the project/program manager greater discretion in executing the budget (e.g., less stringent expenditure controls against line items, whilst constraining aggregate expenditure for the project).

Despite these efforts, some donor-funded projects remain outside TSA. The main reasons being:

- The development partner has yet to complete a fiduciary risk assessment of the PFM systems;
- Existing financing agreements require compliance with donor specific practices; and
- Donor focal points lack understanding of the functioning of the government PFM system and perceive the use of in-country systems as weakening their control over project funds.

The government's reform program aims to expand the proportion of external funding passing through the TSA and IFMIS. Planned activities involve a range of change management and communication initiatives to provide impartial assessments of the benefits and risks to all parties, and to be responsive to donor concerns and requirements.

The Treasury Single Account design

71. The current TSA configuration incorporates some sound TSA features. These include the use of a hierarchical set of linked accounts (or sub-accounts) enabling a view of the UCF aggregated balance. Whilst this structure may be suited to the first step of establishing a TSA—i.e., rationalizing the UCF domestically funded banking arrangements— additional features will be required to enable the TSA's expansion as the means to aggregate and manage all public funds. In particular, new design features will be required to: (a) ring-fence specific funds; and (b) aggregate all public funds whilst recognizing the unique role of the UCF and the requirements of other public funds. The design should also reconsider the mechanism for pre-funding the Vote sub-accounts, since these accounts add an additional step in the process with no added value, as the transaction information is available in IFMIS.

Ring-fencing cash balances

72. The TSA design needs to allow for the protection of certain cash balances. TSA principles seek to maximize the fungible nature of cash, by relying on the financial management systems for exercising expenditure controls. However, in practice there may be instances where ring-fenced balances in both the IFMS and banking systems are justified. In the longer term, ring-fencing may be required to avoid the co-mingling of monies from the various public funds or of the various autonomous government bodies, especially where the IFMS is not being used as the accounting/budget execution tool. In the shorter term, ring-fencing of cash balances within the TSA will likely be required for donor-funded projects and until such time, donors become convinced that earmarked funds cannot be diverted to other purposes.

73. The TSA design should allow for sub-accounts held in the BoU, which retain cash balances earmarked for specific purposes.[12] Unlike the Vote sub-accounts, the balances on these sub-accounts would not be swept at the close of each business day. However, the inclusion of ring-fenced balances within the TSA structure will still provide significant benefit in allowing the GoU to aggregate those balances for determining and managing its overall cash position. Further benefits will accrue over time as the usage of and confidence in the IFMS controls grow and the demand for ring-fencing withers.

Recognizing the Uganda Consolidated Fund's role

74. It is inappropriate to include the UCF as the TSA head account. The current design as described in the TSA Phase One Progress Report[13] places the UCF bank account at the apex of the TSA structure. Whilst this may have facilitated the acceptance of and transition to the Phase One TSA structure, it will cause future difficulties. In particular, as the TSA expands beyond the domestically funded UCF operations, attempting to co-mingle all public funds within the UCF, would distract from the UCF purpose and attract resistance. The mission considers that positioning the UCF as the TSA Head Account, is inappropriate for three important reasons:

---

[12] The concept of TSA sub-accounts is illustrated in the IMF/FAD May 2013 report "A Concept Paper for the Treasury Single Account and Improving Cash Management".

[13] The Treasury Single Account: Phase One, Project Progress Report; MoFPED, February 2014.

- **Aggregating all public monies to the UCF is contrary to legal requirements:** The UCF is required, and its purpose defined in the PFM legal framework. However, as either an accounting or banking concept, the legal framework distinguishes the UCF from other public funds. The aggregate of all public cash cannot be shown as belonging to the UCF.
- **Placing the UCF as the TSA Head Account conflicts with its fiscal stability role:** The UCF performs an important role as being the repository of all UCF receipts, and from which cash is distributed to settle obligations. It plays an important role in ensuring fiscal stability, whereby the inflows to the UCF are used as the main determinant of fund releases to Votes—a role that will likely continue until more reliable revenue and expenditure forecasts are evident.
- **The TSA Head should not be a transactional account:** The UCF receives transfers from the URA, borrowing proceeds, and budget support grants, and issues cash to Votes. In a hierarchical TSA structure, the upper levels should represent aggregated views of the related lower levels (in much the same way that a Vote in the general ledger will comprise all transactions from its detailed line items). The TSA Head Account should, therefore, represent a view of all transactions and balances of public monies at the lower levels.

75. The TSA Phase Two design should introduce a TSA Head Account and relegate the UCF to a lower level within the TSA hierarchy. The TSA Head Account should be capable of providing a view of all government-controlled cash balances administered through the BoU. Relegating the UCF to a lower level, preserves its critical purpose in managing execution of the national budget.

76. New financial regulations will need to clarify the relationships between the UCF, public monies, and the TSA. The relationships are not well-defined in the PFM Bill. The financial regulations should be used to ensure a common understanding that all public monies (including the UCF) are to be managed through a TSA arrangement—see also Section I and Appendix II of this report.

Vote sub-accounts

77. The MoFPED should reconsider the pre-funding of the Vote sub-accounts. Under the TSA Phase One arrangements, quarterly budget fund releases are allocated to Votes through the IFMS, to allow commitments and expenditures. Simultaneously, cash is transferred from the UCF to a UCF Holding Account—payments are thus constrained by the fund releases, which are linked to the cash available in the TSA Holding Account. Payments are generated directly through the IFMS where domestic payments use electronic fund transfers (EFT), whilst external payments use bank instruction and letter of credit mechanisms. Payment lists are produced for each Vote, and as part of the work flow process, used to transfer funding from the UCF Holding Account to the respective Vote sub-accounts. The EFTs are effected the same day, generally causing the credit balances on the Vote sub-accounts to be cleared. Residual credit balances may result where EFTs are cancelled or fail—in these instances, the transactions are canceled and the balances automatically swept back to the UCF Holding Account. The bank statements for each Vote sub-account are uploaded to the IFMS and matched to the cash book; each Vote is responsible for completing its bank reconciliation. There is scope for improving the efficacy of operating Vote sub-accounts, notably by:

- Funding the transfers to the UCF Holding Account in tranches through the quarter.
- Ceasing the pre-funding of Vote sub-accounts—the requirement to pre-fund and then sweep back any residual balances cause additional work and accounting transactions, but does not appear to strengthen controls. The process should be reviewed (over say a three month period) to assess the value added.
- As a longer term objective, reducing the number of Vote sub-accounts by progressively (e.g., absorbing first the Vote sub-accounts with relatively fewer payment transactions) pooling transactions through a centrally-maintained TSA sub-account and payment process.

Extending the Treasury Single Account to projects

78. Ush-denominated project accounts represent the biggest group of government-controlled bank accounts and have a substantial combined balance. In February 2013, there were an estimated 600 project accounts held in the BoU with a total balance of Ush1.7 Trillion[14] (approx. US$650M)—this balance being unremunerated and outside the BoU computation of the GoU cash position. Recent high-profile breaches in PFM procedures, leading to losses of monies from donor-funded project accounts, have increased demands for greater controls and accountability, but may have also made development partners wary of in-country systems.

79. Thus, the incentive for including project balances within the TSA is substantial but incorporating these balances will require complementary activities. In particular, accountability should be strengthened by projects using the IFMS for recording receipts and commitments, processing payments, completing bank reconciliations, and generating financial reports. Encouraging development partners to embrace the IFMS and TSA will require that MoFPED gains a good understanding of donor requirements and concerns, and a willingness to accommodate those requirements and concerted change management measures. Discussions with the World Bank during the mission indicated a willingness by the Bank to act as a pilot for including its projects within the IFMS and TSA arrangements. With the support of the US Treasury Adviser, high level sensitization of the donor community has commenced, with the overall aim of enhancing understanding of the government processes and development of a roadmap for bringing projects onto the TSA.

80. In preparation for discussions with development partners, the MoFPED should anticipate donor requirements and consider the means to accommodate them. Drawing, in

---

[14] See IMF/FAD May 2013 report.

part, on the Mozambique experiences illustrated in Box 2 the following potential donor requirements might be anticipated:

- **Protecting/ring-fencing of donor funds for particular purposes** through the TSA and IFMS structures, procedures, and workflows;
- **Authority to spend** should be restricted to project managers or other staff designated by the development partners;
- **Enforcing good practices and accountability,** including requirements to transact through the IFMS using EFT, segregation of duties, regular back-up, and full audit trail of transactions;
- **The level of flexibility for managing project budgets,** e.g., relaxing line item controls by allowing project manager discretion within overall budget ceilings, and subject to having received sufficient receipts of donor funds;
- **The ability to refund unspent funding** to the development partners;
- **The year-end rollover of unspent monies and committed budgets** through timely and simple procedures;
- **Mechanisms to account for exchange rate variations;** and
- **Flexible project reporting,** to be based on the standard chart of account structure but perhaps providing an additional code segment for discretionary project use and analysis.

81. The work plans for implementing future TSA phases must allow for significant change management activities. During the course of the mission, a high-level meeting with senior donor representatives facilitated by the US Treasury resident adviser and supported by AFRITAC East took place to explain some of the technical aspects of the TSA and encourage donor participation in the process. Subsequent meetings with the World Bank indicated a willingness to participate in the testing of the TSA through inclusion of World Bank funded projects in the TSA arrangements, which the mission strongly supports. Further change management activities will include, but not be limited to:

- **Requirements elaboration**, i.e., convening sessions with individual and groups of donors to understand their common and specific requirements, and to describe solutions;
- **Involve donor representatives** in confirming system requirements and testing the configured solutions;
- **Cooperate with donor fiduciary risk assessments;**
- **Phasing the implementation**, i.e., sequencing might involve: (i) including the Ush-denominated project monies, (ii) including the foreign-denominated accounts, and (iii) reducing the level of direct disbursements;
- **Development of a Donor/MoFPED memorandum of understanding**, i.e., setting out the roles and responsibilities of each party etc; and

- **Piloting**, i.e., involving one or more donors and projects to use the IFMS and TSA providing feedback to improve their operations, and to serve as a champion for encouraging participation by other donors.

C. Legal and Regulatory Framework

82. The Treasury Single Account arrangements are not defined in the new Bill. There is no definition of the TSA in clause 4; neither are banking arrangements defined nor specified in clause 33, which deals with banking arrangements. The responsibilities of the Accountant General do require that office to, in the management of votes, operate a Treasury Single Account, as defined in regulations. This clause is problematic since it may limit the coverage of the TSA to votes, thereby potentially missing the opportunity to bring extra-budgetary funds, including petroleum funds within the TSA. This issue is an example of the coverage of the Bill discussed in Section I of this report, and should be addressed at the drafting stage.

83. The regulations to the Act should define the TSA, its coverage, and distinguish between the UCF and the TSA. The regulations should not only define the banking arrangements of the TSA, but also anticipate future stages of cash management development during which the benefits of the arrangements can be more fully realized. This will require regulations regarding the investment of surplus cash balances and borrowing to meet short term cash shortages.

D. Summary of Recommendations

84. The mission makes the following recommendations:

- Recommendation 4.1: Review the TSA structure and introduce a TSA Head Account, and relegate UCF to a lower level within the TSA hierarchy;
- Recommendation 4.2: Review the efficiency of operating Vote sub-accounts;
- Recommendation 4.3: During drafting of the legislation, include a definition of the Treasury Single Account and its coverage, with appropriate transitional provisions;
- Recommendation 4.4: Develop new financial regulations that define the TSA, and clarify the relationship between the UCF, public monies, and TSA;
- Recommendation 4.5: Work with donors to establish their common and specific requirements for management and accounting of project funds through the TSA; and
- Recommendation 4.6: Continue to expand the coverage of the TSA and roll-out of the IFMIS, in particular, bringing project accounts into the TSA.

Appendix I. Uganda: Contents of the Regulations

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Preliminary			
• Citation and commencement • Application • Interpretation • Application of the Regulations	• Usual provisions for regulations • Define "fiscal balance" if Bill fails to do this	Part I clauses 4 and 5	Align with the Bill and ensure that the same terminology is used as in clause 4 of the Bill Fiscal balance is not defined in the Bill
Purpose, Objectives, and Scope of the Regulations	Usual provisions for regulations		
Macroeconomic and Fiscal Rules			
Charter of Fiscal Responsibility	Set of minimum contents including indicators and information to assess the alignment of the Charter to: • Requirement to support macroeconomic stability and economic growth • Fiscal responsibility principles		Bill lacks this in the schedule and if this is not addressed then do this in Regulations
	Define indicators for: • prudent and sustainable levels of public debt • sustainable fiscal balance excluding petroleum • management of petroleum revenues and other finite natural resources for the benefit of current and future generations • management of fiscal risks in a prudent manner • efficiency, effectiveness and value for money (require specification of this as it is missing in the Bill)		Assume inappropriate fiscal principles about revenue generation and adherence to NDP and MTEF are removed
	Specify in minimum content for reports		
	Define Require publication on official website of the government		Publication requirements lack this

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Economic and Fiscal Update	There are 4 types of Economic and Fiscal Updates (one with the Charter, twice yearly after that so mid-year and annual, and pre-election)—for each of these four types specify: • Responsibilities to produce these • Minimum contents (ensure these include reference to fiscal responsibility principles as well as the fiscal objectives in the Charter) • Who the reports are presented to • Date reports are presented • Publication requirements	6 (1) (b) 14 17	Reporting requirements are not well specified in the Bill so Regulations will need to cover the gaps unless Bill is amended
Deviations from Charter of Fiscal Responsibility	• Minimum contents for deviation report which shall include reporting deviations against the fiscal responsibility provisions and Charter. • Date to provide report to Parliament. • Require publication on official website of the government	7	Provisions in the Bill need further specification particularly reporting requirements including timing as not all deviations will come from cabinet decisions

Budget Framework Paper at Government level	• The process steps and dates could be specified for the development of Budget Framework Paper or this can be dealt with in instructions issued under the Act
	• Minimum contents for government level BFP are specified in schedule 3 therefore regulations would deal only with matters than need further specification which could include:
	  ○ Requirement to compare BFP to the fiscal responsibility principles (not just the Charter)
	  ○ Requirement to present forecasting scenarios and effect on revenue forecasts and requirement to state assumptions (schedule 3 specification is not well drafted)
	  ○ Comparison to other independent forecasts, past forecasts and explanation of differences
	  ○ Further specification of the requirement to report contingent liabilities.
	  ○ Minimum contents for MTEF part of the BFP including ceilings to be used in the budget process
		9Schedule 3	Bill has unclear specification of BFPs and other medium term documents which must be resolved in the regulations.Clarify timing of government level BFP if Bill fails to reconcile problems of conflicting timing (although Act will prevail over Regulations if Bill is passed with timing issues)

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Medium-Term Debt strategy	• Minimum set of contents for medium term debt strategy • Definition of sustainable debt limits required to be set in nominal terms and for information purposes as percent GDP and definition of coverage of these limits (total, central government, and local government) for BFP, Charter, and Annual Budget • Linkage of medium term debt strategy to BFP and Annual Budget process • Minimum set of contents for annual budget debt document (should draw on MTDS) and include limits on borrowing and guarantees • Minimum set of contents for debt reports (and provisions about timing and publication if Bill remains unclear on this)	10 (8) 3 40 (3)	Bill has fragmented and incomplete debt provisions and if not addressed, then Regulations will need to be expanded with regard to debt.
Budget Preparation, Approval, and Management			
Annual budget appropriation	Define the unit of appropriation	9	Bill does not do this clearly—appropriations appear to be at Vote level
Stages of the budget process	Process and timing requirements for: • Macroeconomic forecasts • Fiscal forecasts • Medium-term plan updates if any from BFP • Issuing Budget Circular/instructions • Vote and entity level documents • Budget production including the documents	9, 10	
Budget documents from entities (Budget Framework Paper and Ministerial Policy Statements)	As far as possible fill gaps and deal with inconsistencies in the Bill regarding the entity level documents. For each provision cover: • Responsibilities • Minimum contents • TimingNote that ministerial policy statements are too operational in section 10 and regulations could specify that the operational parts are presented for information not approval by Parliament and that they may be updated during the year. Regulations could specify the minimum level of higher level information to be in the ministerial policy statements presented with the annual budget.	910	Bill has unclear requirements about vote level and government level BFPs and also refers to ministerial policy statements

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Other annual budget documents and approval of Annual Budget	• As far as possible deal with the inconsistencies and gaps in the specification of the Annual Budget documents (see note prepared on this which details the issues in the Bill). • Specify publication requirements including on an official website of the government. • Specify responsibility and minimum contents for some of the annual budget documents such as the treasury memorandum, statement of multiyear commitments (consider setting out limits to be approved by Parliament), statement of tax expenditures, expenditure estimates, statement of budget honesty, revenue estimates, financing estimates, etc. • If a government work plan is still required in the Act then specify contents at a suitable level so it is not an operational level.	10 11	Current draft Bill has unclear requirements about annual budget documents and Bills
Commitment of Approved Budget	• Process to prepare, submit and update annual procurement plans. • Process to prepare an annual cash flow plan, linked to the annual procurement plan. (cross reference to cash management for updates and consolidation of the cash plans) • Accounting officer responsibility for preparation of annual procurement and cash flow • Format and content of annual procurement plan and cash flow plan to be set out in instructions and guidance notes issued under the Act plans and information required and frequency for updating the plan.	12	Bill lacks updating requirements
	Requirement that budget limits be based on annual Cash Flow Plan		
	Commitments not to exceed cash limits		
	Criteria for release of funds by Accountant General		
	Limitations of commitment against budget limits		Penalties for over commitment?
Report on Expenditure Commitments	Definition of format and content for quarterly commitment report to include budget, commitments, actual, forecast and cash position, and an explanation of the latter	13	Link to cash management
	Specification of entities that are required to produce quarterly reports		
	Requirement for all entities to report not only commitments, but all payments in arrears (including all classes of expenditure: salaries, allowances, goods, services, utilities, payments to international organizations, tax refunds, etc.)		
	Reference to procurement regulations under the Public Procurement and Disposal Act 1		
Report on Performance	As far as possible within the constraints of the Act, deal with the gaps and inconsistencies in the Bill and specify responsibilities, minimum contents, timing, presentation, and publication requirements for financial and nonfinancial performance: • Government-level in-year reports • Vote and entity level in-year reports • Government-level annual reports • Vote and entity-level annual reports	6, 7, 14, 16, 17, 18, 50, 51	Bill has fragmented, overlapping and incomplete reporting requirements

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Expiry of appropriations	Requirements governing carry-over and approval of warranted funds including arrangements for donor-funded project moneys.	15	
	Provisions about the identification and request for the re-appropriation of unspent funds		
Reporting on fiscal performance	*See above Report on performance*	16	
Publication of Pre- and Post-Election Fiscal Reports	• As far as possible split the reporting into two well specified reports—one is a revised Economic and Fiscal Update and the other is a report on election spending. • Include suitable contents, timing and publication requirements. • Include requirement to report against the fiscal responsibility principles, not just the BFP and Charter.	17	Bill confuses reporting on election spending and updating the Economic and Fiscal report prior to the election
Budget Execution by Accounting Officers	Define funding limits	18	
	Commitments for goods, services and construction works to be recorded in the IFMS. Local purchase orders to be generated from the IFMS. Exceptions listed (e.g., utilities and claims)		
	Accounting Officer limited to commit within Funding (Cash) limits specified by MoFPED		
	Format and minimum content of Budget Execution Report—see above comment on Report on performance		
Virements	Rules, format, authority and timelines for the submission, consideration and approval of virements (between votes, vote functions and economic items) with a presumption of allowing line ministries greater flexibility subject to certain restrictions (e.g., restricting transfers between wages and non-wage expenditure, and between recurrent and development expenditure). The MoF may also wish to apply restrictions on reallocating resources to certain types of expense (e.g., travel, vehicles, and telecommunications)	19	
	Virements to specify impact on objectives and planned outputs and outcomes		
Multi-Year Expenditure Commitments	Procedures for approving and recording contracts/commitments which extend beyond the current fiscal year	21	
	Provide for the setting of aggregate government wide and not just vote level limits.		
	Specify the format and content of multi-year commitment limits		
Classified expenditure	Define what institutions this applies to and what aspects of their spending.	4 and 22	
Supplementary Budgets	Stipulate that government entities may not submit proposals for new or additional spending outside the annual budget unless un-absorbable, unforeseeable, and unavoidable.	23	
	MoF to develop format and criteria for the preparation of post-budget spending requests		

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Supplementary Budget (cont.)	Minimum required contents and timelines for supplementary budgets including identification of funding sources		
	Supplementary estimates submitted after the half year to be informed by a mid-year review and to reflect any transfer of functions		
	Requirement for formal report on effect on Charter and principles of fiscal responsibility		
	Requirements relating to excess expenditure procedure including minimum contents for the excess expenditure report	23(6)	
	Format and content of statement of losses written off by Minister	44	
Contingencies Fund			
The Contingencies Fund	Procedures, responsibility and format for reporting for expenditure under the contingency vote	24	
Responses to disasters to be funded from the contingencies Fund	Responsibility for declaring a disaster (refer to relevant legislation)		
Supplementary Expenditure Financed from the Contingencies Fund	Define procedures for use of contingencies fund (vote)	26	
Cash, Asset, and Liability Management			
Collection and deposit of revenue and retention of revenue	Responsibility for revenue collection resides with the Accounting Officer		
	Accounting Officers to review user charges for services rendered by the state and charged for		
	Regulation to indicate that deposits must be made into CFU/TSA		
	Collection must be made through the IFMIS and adequately classified		
	Responsibility for recording debts owing to the government and pursuing timely settlement.		
	Processes for debt recovery.		
	Accounting Officers to disclose in annual reports arrears of revenue owing to the government, analyzed by the nature of revenue, the period overdue and recovery efforts made.		
	Annual reports of votes, public corporations, and state enterprises to include information on user charges		
	Regulation must define what type of accounts can or cannot transfer funds to CFU		
	Secretary to the Treasury to specify a format of the publication of information of tax collection arrears, tax exemptions, and tax expenditures	27 and 8	
Cash management	Responsibility for cash management		
	Requirement to establish cash management committee		

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Cash management (cont.)	Roles and responsibilities of cash management committee		
	Requirement for consolidated cash plan, regularly updated to reflect latest revenue and expenditure forecasts. Coverage of cash plan to correspond with TSA.		
	Define the role of the BoU in relation to TSA (not only as a banker but as supervisor of the Commercial banks in the TSA)		
	Regulation must delegate power to the Minister to define the phases of the TSA implementation		
The Consolidated Fund	Define consolidated fund and distinguish between consolidated fund, public funds and treasury single account	28	
Special Funds	List of Special Funds to be included in the budget	29	
	Conditions within which the Minister may create Special Funds		
	Secretary of Treasury to issue instructions for the Estimates of Special Funds		
	Accountant General to issue instructions for financial statements of special funds		
Investment of balances on the Consolidated Fund	Responsibility for the management of the cash surplus of the government		
	Decision to invest cash surplus must be done upon presentation of a "feasibility study"		
	The regulation should allow Treasury to review the terms and conditions of remuneration of the investments (e.g., interest rates change)		
	Link to section on cash for short-term investment of TSA balance		
Grants of Credit on the Consolidated Fund	Criteria to be considered by the Accountant General in advising the Minister on issuance of grant of credit	31	
Withdrawals from the Consolidated Fund	Define the procedures and responsibilities for requesting and approval of withdrawals from the consolidated fund		
	Procedures for withdrawal through the IFMIS		
Bank Account Management	Define the Treasury Single Account to: • Require the Accountant General to determine the government's bank account structure, based on the principles of a treasury single account. • Ensure all funds, including petroleum funds and project accounts operate within the TSA • Require all constitutional bodies, regulatory and other bodies that receive their majority of funding from the national budget are included in the TSA • Exceptions to inclusion in the TSA (e.g., mission abroad and trading entities) • Roles and responsibilities for requesting and approving the opening of bank accounts or TSA sub-accounts. • Criteria to be considered for justifying the need for a new or continuation of a bank account or TSA sub-account. • Criteria, responsibilities and process for closing a government bank account or TSA sub-account • Responsibility for maintaining an up to date register of all government bank accounts	33	

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Bank account management (cont.)	Define the circumstances under which the Accountant General can authorize separate bank accounts to be open outside the Consolidated Fund/TSA		
	Define the rules for opening, usage and closing of bank accounts (e.g., every account must have at least two signatories)		
	Define the responsibility of reconciliation of bank accounts and oversight of bank reconciliation		
	Requirement for a memorandum of understanding which specifies the relationship between MoF and BoU on management of government bank accounts		
	Procedures for operating the TSA including arrangements for sweeping outstanding balances of commercial accounts to the TSA		
	Limits to which accounts can be overdrawn		
	Requirements for banking records		
	Definition—reference to bank accounts to include TSA sub-accounts.		
Authority to raise loans	Loans can only be raised upon presentation of sound study		
	The loan to be raised must be foreseen in the annual budget		
Repayment, conversion and consolidation of loans	Establish the criteria under which loans can be repaid, converted and consolidated		
Expenses of loans	All expenses of loans to be included in the annual budget		
Authority to Guarantee loans	Conditions that can be imposed on a borrower by the Minister before giving a guarantee	37	
	Criteria to be considered by the Minister when guaranteeing a loan		
	Information that would be required from the borrower to assess that its intended purpose s in line with government policy and the borrowing entity is capable of repaying the loan.		
	Specification of the penalties of an entity should it fail to repay the loan (e.g., no entitlement to further guarantees)		
Reimbursement of costs of a guarantee	Specification of the expenses the Government incurred in relation to the guarantee for estimation of the costs incurred	38	
Amounts due on loans or guarantees to be charged on to be charged on the consolidated fund	Information that the Minister would require to allow for payment of a guarantee from the consolidated fund	39	
	Other details to be included in the report to the Parliament once money is paid out of the Consolidated Fund for a guarantee		
	Responsibility for planning and reporting for the guarantees to be issued in the financial year, formats and timing of reports to be produced for inclusion in the budget documents		
Management of Government Debt	Regulations on—responsibility and procedures for handling debt management operations and executing transactions—the assessment of the risk of government guarantees	40 (2) and (3)	

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Management of government debt (cont.)	Reports should include, but limited to: • Composition of government debts (e.g., interest, length of maturity, currency for each debt); and • Outstanding debt at the beginning and end of the year; principal paid and interest paid.		
Public-Private Partnerships	Reference to regulations covering the design, approval and monitoring of Public-Private Partnerships	Not covered	
Public Investment	• Definition of expenses to be classified as investment • Responsibility for identifying and negotiating external funding for projects, both loans and grants • Reporting requirements for investment projects, including project preparation, and implementation status, project appraisals and ex-post evaluations	Not covered	
Management of Expenditure of Project loans and grants	Allow in-year budget increments to be approved by the Minister, provided evidence of financing	41	
	Allow carry-over of year-end balances within limits so the principle of an annual budget is not undermined		
	Allow project implementing units to generate donor specific requirements using budget or specific classifications for reporting purposes		
Authority to receive grants	Directives and criteria for the receipt, deposit and disbursements of grants that will not form part of the CF/TSA	42	
Asset Management	Accountant General responsible for determining the framework for recording, accounting and reporting of assets.		
	Responsibility of the accounting officer for managing the assets pertaining to their Vote(s) including to prevent asset loss		
	Treatment of gifted assets		
	Entities to develop an asset management plan in a format approved by Accountant General	43	
	Guidelines including requirements and formats for maintaining asset registers		
	Responsibility of the Accounting Officer to prevent asset loss		
	Annual verification of asset inventory including certification by Board of Survey that annual inventory has been completed, timing and verifications to be undertaken		
	Principles for charging for use of government assets		
	Management of losses (including cash) i.e., How they should be managed		
	Requirements for the management of stores and supplies		
Abandonment of claims and write-off of public money and stores	Rules and responsibilities governing write-offs		
	Disposal of assets must be at fair value and in accordance with the public procurement and disposal act		
	Accounting Officer to determine recovery of debts by installments		
	Accounting Officers to write off debts owing to the state after satisfying stipulated conditions		

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Abandonment of claims and write-off of public money and stores (cont.)	Collection procedures for overdue debtors		
	Accountant General to specify formats for disclosure of asset related matters in the annual financial statements		
	Interest must be paid on all over due debtors and shall be prescribed by the minister of finance		
	Collection procedures for overdue debtors		
	Accountant General to specify formats for disclosure of asset related matters in the annual financial statements		
Accounting and Audit			
Budget Classification and Chart of Accounts	Authority to the Secretary of the Treasury to develop the Budget Classification and Chart of accounts		
	Authority to the Accountant General to maintain the chart of accounts	52 (3)	
Appointment of Accounting Officers	Duties, responsibilities, qualifications and appointment	45	
	Types of records to be maintained by Accounting Officers		
Audit Committees	Structure, composition and responsibilities for audit committees including the role of audit committee with regard to report of the Auditor General	49	
	Format and deadline for submission of annual report of audit committees		The Bill is currently silent on this
	Limits on remuneration of audit committee members		
In-year financial Reporting	Format and frequency of in-year financial reports to be developed by Accountant General	50	
	Define payments in arrears as payments unpaid by X days after due date and require Accounting Officers to report all payments in arrears for all classes of expenditure		
Annual Accounts	Generally accepted accounting policies/ accounting standards to be defined by Accountant General	51	Bill should refer to international standards
	Accounting standards adopted to be clearly stated in the annual financial statements and departures from standards disclosed		
	Accountant General to issue an accounting manual which specifies accounting policies for each class of revenue, expense, asset and liability		
	Accountant General to issue reporting templates for summary statements of financial performance to be prepared by public corporations and state enterprises		
	Timeframe and requirements for public corporations, special funds and state enterprises to report to MOFPED		
	Publication of annual accounts after completion of audit		
Consolidated Annual Financial Statements	Generally accepted accounting policies to be defined, including those on consolidation of accounts		
	Accounting standards adopted to be clearly stated in the annual financial statements		
	Criteria for recognition and publication of generally accepted accounting policies by the Institute of Public Accountants of Uganda to be clearly defined	4	

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Consolidated Annual Financial Statements (cont.)	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
	List of Accounting Officers and authorized entities allowed to incur classified expenditures	53	
	Accountant General to develop format for reporting by Accounting Officers on classified expenditures		
Petroleum Revenue Fund			
Establishment of the Petroleum Fund	Define petroleum revenues and include all revenues, income, dividends, proceeds, gains, earnings or other moneys or assets received from the investment of Petroleum Fund assets which shall be retained within and constitute part of the Petroleum Fund and such revenues shall include, but not be limited to: • interest on deposits and securities; • dividends; • proceeds from the sale of stocks and shares; • earning from derivate transactions; and • [Others?]	4 and 55	Check relevant Acts for definition – the current draft Bill lacks comprehensive definition
Collection and deposit of petroleum revenues into the Petroleum; Operation of account	Specify the banking arrangements including: • Requirement to use single Treasury account or a bank account approved by Accountant General • Requirements about authority to operate account • Other banking requirements	56, 57	
Withdrawals from the Petroleum Fund	Define infrastructure and development projects and clarify that recurrent expenditure related to the setting up of these projects is an exception to the prohibition on spending on recurrent expenditure (define recurrent expenditure for the purpose of this section as excluding recurrent expenditure related to the setting up of infrastructure or development project)	58	

Reporting and accountability	• As far as possible the regulations should set out clear and suitable requirements for:
	  ○ Investment portfolio reporting by BoU (require benchmark reporting, at least monthly, published on BoU website by set time)
	  ○ In year and annual reporting by Accountant General on matters relating to the Fund
	• The reporting requirements should cover:
	  ○ Who prepares the report
	  ○ Minimum contents
	  ○ Accounting and reporting standards
	  ○ Who the report is presented to
	  ○ Audit requirements
	  ○ Timing
	  ○ Publication (must be timely and include website publication)
		59, 60, 67, 68, 70	Bill does not clarify institutional reporting (e.g., financial statements) with reporting on an investment portfolio and the Accountant General reporting on the Fund in relation to the government accounts

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Accounting for classified expenditure	List of Accounting Officers and authorized entities allowed to incur classified expenditures	53	
	Accountant General to develop format for reporting by Accounting Officers on classified expenditures		
Petroleum Revenue Fund			
Establishment of the Petroleum Fund	Define petroleum revenues and include all revenues, income, dividends, proceeds, gains, earnings or other moneys or assets received from the investment of Petroleum Fund assets which shall be retained within and constitute part of the Petroleum Fund and such revenues shall include, but not be limited to: • interest on deposits and securities; • dividends; • proceeds from the sale of stocks and shares; • earning from derivate transactions; and • [Others?]	4 and 55	Check relevant Acts for definition – the current draft Bill lacks comprehensive definition
Collection and deposit of petroleum revenues into the Petroleum; Operation of account	Specify the banking arrangements including: • Requirement to use single Treasury account or a bank account approved by Accountant General • Requirements about authority to operate account • Other banking requirements	56, 57	
Withdrawals from the Petroleum Fund	Define infrastructure and development projects and clarify that recurrent expenditure related to the setting up of these projects is an exception to the prohibition on spending on recurrent expenditure (define recurrent expenditure for the purpose of this section as excluding recurrent expenditure related to the setting up of infrastructure or development project)	58	

Reporting and accountability	• As far as possible the regulations should set out clear and suitable requirements for:
	  ○ Investment portfolio reporting by BoU (require benchmark reporting, at least monthly, published on BoU website by set time)
	  ○ In year and annual reporting by Accountant General on matters relating to the Fund
	• The reporting requirements should cover:
	  ○ Who prepares the report
	  ○ Minimum contents
	  ○ Accounting and reporting standards
	  ○ Who the report is presented to
	  ○ Audit requirements
	  ○ Timing
	  ○ Publication (must be timely and include website publication)
		59, 60, 67, 68, 70	Bill does not clarify institutional reporting (e.g., financial statements) with reporting on an investment portfolio and the Accountant General reporting on the Fund in relation to the government accounts

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Investments from the Petroleum Funds	Specify requirements to limit undue risk as although there will be an investment policy the law should set some minimum standards such as: a. an internationally convertible currency deposit with, or a debt instrument denominated in any internationally convertible currency that bears interest or a fixed amount equivalent to interest issued by i. the Bank for International Settlements; ii. the European Central Bank; or iii. the Central Bank of a sovereign State, other than the Government of Uganda, with a long-term investment grade rating b. a debt instrument denominated in internationally convertible currency that bears interest or a fixed amount equivalent to interest: i. that is of an investment grade security; and ii. that is issued by or guaranteed by the International Monetary Fund, World Bank or by a sovereign State, other than the Government of Uganda, if the issuer or guarantor has investment grade rating; c. equity in a private company that is: i. listed on the stock exchanges of [insert names]; and ii. no more than [3] percent of the total equity capital of the company or [3] percent of the voting shares in a single company; d. a derivative instrument: i. that is solely based on an instrument that satisfies the requirements of this subsection; and ii. where the acquisition has risks no greater than or has risks less than the financial exposure to the underlying instrument or instruments.	61	Bill lacks provisions to deal with investment risk
Management of the Petroleum Revenue	• Set out minimum basic principle of portfolio management to be adhered to. • Ensure that the requirements to adhere to the procurement laws is not overly constraining BoU as those laws are unlikely to have been designed with the procurement of investment portfolio management in mind and if they are unsuitable then use suitable words in the regulations to deal with this (cannot conflict with the Act but can modify the impact without conflicting with the Act) • Banking arrangements with respect to the TSA	62	
Appointment and qualifications of members of Investment Advisory Committee	Set out the qualifications required for the committee for the people appointed who are not there by virtue of holding an office (like the PS/ST). Provide more detail than in sub-clause (4)	65	
Functions of Investment Advisory Committee	Require timely publication of the report to the Minister on a website of the government	66	

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Accounts of the Petroleum Revenue Investment funds	See comment above on reporting- need to design a set of suitable reports then do what is possible to get them into the regulations given the problems with the specifications in the Bill	67	
Performance reports by the Bank of Uganda	• See comment above on reporting—need to design a set or suitable reports and define them in the regulations given the problems with the specifications in the Bill. • Investment portfolio reports by BoU must be published each month on the BoU website- Bill has no provision for this publication.	68	Bill has unclear and inadequate reporting requirements.
Annual plan for the Petroleum Revenue Investment funds	• Make the requirement for Parliament to approve the plan more practical by setting out contents of plan in regulations and make the contents suitable as Parliament should not be dealing with an operational matter like investment portfolio planning. • Require publication on the website of the BoU in a timely way.	69	Odd requirement that Parliament approves BoU annual investment plan
Annual report	The annual report specifications in the Bill are unsuited to investment portfolio reporting. Regulations may be able to ameliorate this to some extent, for example by defining the financial statements in a suitable way as the usual accounting concepts of a set of financial statements are not directly transferable for these. Investment portfolio reporting would include information on classes of investment, returns compared to benchmarks and expectations, and other information including: • **Portfolio Position:** Portfolio Summary; Portfolio Reconciliation; Portfolio Appraisal; Unrealized Gains & Losses • **Portfolio Performance:** Performance by Security (for last 12 months); Performance by Security • **Fees and Tax:** Provisional Tax Report (Year To Date); Monthly Fees Invoice • **Transaction Related:** Deposits And Withdrawals; Transaction Summary; Income and Expenses Cash Ledger • **Income Related:** Annual Income Projection, Gross	70	Bill has an annual report designed for an institution not an investment portfolio.
Audit of the Petroleum Fund	• Specify internal audit requirements such as by a committee of external experts, at least quarterly, minimum coverage of audits, publication requirements including on BoU website and timing for this. • Specify additional external audit requirements including qualifications of auditors (to be suited to auditing an investment portfolio) and publication requirements including on BoU website and timing.	71	Bill lacks internal audit requirements
Sharing of revenues from royalties	Specify mechanism for dealing with situation when revenues vary from projections and the 7 percent amount appropriated to local governments is too small or too large.	73	Bill has no provisions about this
Petroleum Valuation and Pricing Committee	Specify who the committee reports to, its functions, the appointment provisions including terms and conditions (e.g., no extra pay for civil servants, appointment of advisers), secretariat arrangements (if any), powers (advisory and otherwise), obligations of persons or entities in relation to this committee (e.g., to provide information), and reporting.	74	Bill lacks specifications about this committee

Issue	Proposed Regulation/ Instruction	PFM Bill Clause	Comment
Role and Responsibilities			
Responsibilities of Officers	To include: Minister of Finance; Ministers, Accounting Officers, PSs and CEOs of all entities including AGAs and SAGAs, commissions, constitutional bodies, state enterprises, special funds and local government Chief Accounting Officers.		Key roles and responsibilities missing from Bill

Appendix II. Uganda: Charter for Fiscal Responsibility

Draft Charter for consideration

Contents of Charter

[Comment: Schedule 2 to the Public Finances Bill could follow this structure]

Preface

[Comment: Explains purpose of Charter, giving historical perspective of economic management in Uganda]

1. Legislative basis for the Charter

[Comment: Explains sections of the PFM Act which Charter fulfils]

2. Statement of objectives for fiscal responsibility, and their consistency with the principles for development of fiscal policy.

    a. Objectives for fiscal responsibility
    b. Definition of aggregates used to measure the objectives

[Comment: Sets out the fiscal rules that will govern setting fiscal policy]

3. Operation of fiscal policy to meet the objectives for fiscal responsibility

[Comment: Sets out the procedure for planning fiscal policy, including setting of medium-term expenditure limits to meet the fiscal rules]

4. Reporting on performance against the objectives for fiscal responsibility

    a. Timetable for publication of reports
    b. Minimum content of reports

[Comment: Sets the requirements for reporting on performance against the rules]

Preface

[Comment: to include an explanation of the purpose of Charter, setting it in the historical perspective of economic management in Uganda.]

Section 1: Legislative basis for the Charter

1.1: Under Section 6 (1) of the Public Finance Management Act, the Minister shall submit to Parliament a Charter for Fiscal Responsibility, relating to the formulation and implementation of fiscal policy.

1.2: Section 6 (2) (a) of the Act requires the Charter to include:

(i) a statement of the government's measurable objectives for fiscal policy for a period of no less than the next three financial years which are consistent with the fiscal policy principles set out in section 5 of the Act.

(ii) an explanation of the methodology to be used to measure the government's performance against those fiscal policy objectives

(iii) a list of the data sources to be used to report developments against the fiscal objectives included in sub-section; and

(iv) a demonstration of how the fiscal objectives set out under sub-section (a) (i) are consistent with respective fiscal policy principles set out in section 5 of this Act.

1.3: Schedule 2 of the Act further specifies the format of the Charter, requiring the Government to set out:

- …
- …
- …

1.4: Section 14 of the Act requires the Government to report on performance against the fiscal objectives set in the Charter at least twice per financial year.

1.5: This Charter fulfills the legislative requirement in the Act. In particular:

- Section 2 sets out the objectives for fiscal responsibility, explains their consistency with the principles contained in the Act, and defines the data sources and methodology for producing aggregates to measure performance against them.
- Section 3 explains how fiscal policy will be operated in accordance with the Act to be consistent with the objectives set out in this Charter
- Section 4 specifies the timing and content of reporting on performance against the objectives which the Government will undertake.

Section 2: Statement of objectives for fiscal responsibility, and their consistency with the principles for development of fiscal policy.

2.1: As set out in the Public Finance Management Act, Section 5 (2), the Government's shall comply with the following principles for the responsible development of fiscal policy:

a. Maintain prudent and stable levels of public debt
b. Ensure the fiscal balance calculated without petroleum revenues is maintained at a sustainable level over the medium term
c. Manage petroleum resources and other finite natural resources for the benefit of current and future generations
d. Manage fiscal risks in a prudent manner
e. Ensure efficiency, effectiveness and value for money in expenditure

2.2: To fulfill these principles, the Government has set the following measurable objectives for fiscal responsibility.

Objective 1: Ceilings on the public deficit

2.3: To maintain prudent and stable levels of debt, ensure the fiscal balance is maintained at a sustainable level, and that petroleum resources are managed for the benefit of current and future generations, the Government will ensure in this and each of the next five financial years that:

- The [general government] fiscal balance, excluding [resource revenues and grants], is maintained below [*]% of GDP; and
- The [general government] fiscal balance, including petroleum revenues and grants, is maintained below [*]% of GDP, [consistent with the macroeconomic convergence criteria for EAC monetary union.]

Where unexpected revenue shocks, for example as a result of cyclical developments in the economy, take the fiscal balance above these ceilings, the Government will set its fiscal plans to reduce the fiscal balance below them [over a period not longer than the following two financial years].

Where these ceilings are exceeded for other reasons, the provisions in Section 7 of the PFM Act will be brought into effect.

Objective 2: Ceilings on public debt

2.4: To maintain prudent and stable levels of debt, and manage fiscal risks, the Government will ensure that in this and each of the next five financial years gross public debt in net present value terms is maintained below [*]% of GDP, [consistent with the macroeconomic convergence criteria for EAC monetary union.]

To manage fiscal risks against this ceiling in a prudent manner the Government will target a gross public debt level of [*] percent of GDP in nominal terms at the end of its five-year forecast horizon. [The Government will target fiscal policy so as to ensure that the annual growth in public debt in the final year of the five-year forecast horizon is lower than forecast growth in nominal GDP.]

Supplementary targets to support the efficient management of the public finances, including petroleum revenues

2.5: To support the delivery of the principles for fiscal policy and the primary targets setting ceilings on deficit and debt, the Government will pursue the following supplementary targets:

- [supplementary target 1].
- [supplementary target 2].

Definition of fiscal aggregates used to measure the objectives

2.6: In measuring performance against the objectives for fiscal responsibility, the Government will use the following definitions and data sources:

- "The [general government] fiscal balance" means [general government] net lending/borrowing as defined in [specify an internationally recognized accounting standard].

- "resource revenues" means all revenues and taxes to [general government] associated with the exploitation of natural resources, including petroleum revenues as defined in the PFM Act.

- "Grants" means [project and budget support grants from foreign countries] *[Comment: align definition with definition for EAC rule]*

- ''Gross public debt in nominal terms" means *[Comment: define comprehensive public debt aggregate.]*

- ''Gross public debt in net present value terms" means *[Comment: align with EAC definition. Specify discount rate to be used to calculate NPVs.]*

2.7: All statistics required to measure performance against the fiscal objectives will be published at least annually by [*]. The publication schedule will be as follows:

[Insert publication schedule for government finance statistics.]

Section 3: Operation of fiscal policy to meet the objectives for fiscal responsibility

3.1: The Ministry responsible for finance shall prepare an annual Budget Framework Paper, to be submitted to Parliament by 31st December of the financial year preceding the financial year to which the Budget Framework Paper Relates. The Budget Framework Paper shall include at a minimum the contents set out in Schedule 3 of the Public Finance Management Act and Section 4 of this Charter.

3.2: The annual Budget Framework Paper will determine the medium-term expenditure framework limits for each financial year consistent with the objectives for fiscal responsibility by:

(i) Determining a specific path for the fiscal balance consistent with the objectives set out in Section 1 of this Charter.
(ii) Forecasting revenues on a transparent, prudent and realistic basis.
(iii) Then calculating the annual expenditure ceilings which are compatible with the projected path of revenue and fiscal balance.

3.3: The Budget Framework Paper shall be approved by Parliament and published no later than 30 days after the 1st of February of the financial year preceding the financial year to which the Budget Framework Paper relates.

3.4: Following that approval, in accordance with the provisions in the Act, the Annual Budget shall be presented to Parliament and approved no later than 31st May of that year. The Annual Budget shall be consistent with the approved Budget Framework Paper, and in particular with the overall expenditure limits for the coming financial year set out in that Budget Framework Paper. It will be based on the economic and fiscal forecasts set out in the Budget Framework Paper.

3.5: [Insert information on the role of Accounting Officers, Ministers and the Cabinet in budget execution.]

3.6: [Insert specification of reporting on budget execution in line with PFM Act.]

Section 4: Reporting on performance against the objectives for fiscal responsibility

Timetable for publication of reports

4.1: Section 14 of the Public Finances Management Act requires the Government to report at least twice per financial year on performance against the fiscal objectives set out in this Charter.

4.2: The Government will report on performance in the following documents:

- The annual Budget Framework Paper, published no later than 30 days after 1st February.
- A Half-Year Fiscal and Economic Update, published no later than the end of October.
- [A Full-Year Final Report on Fiscal and Economic Outturns, published [insert date when final outturn data on fiscal aggregates is available if it cannot be aligned with the BFP.]]

[Comment: The PFM section 16 requires updates by end Feb and end Oct. Suggest that, to reduce the burden on staff producing economic and fiscal forecasts, public updates should be aligned with the BFP projections, with a half-year report roughly 6 months later. A report on final outturn should ideally align with the publication timing of the BFP.]

[Comment: make special provision for pre- and post- election updates here]

Content of reports

4.3: The annual Budget Framework Paper and the Half-Year Fiscal and Economic Update must explain how government policy is consistent with the fiscal principles set in the PFM Act, and with the measurable fiscal objectives contained in this Charter.

4.3: The annual Budget Framework Paper and the Half-Year Fiscal and Economic Update shall publish at least the following information, to allow transparent assessment of performance against the fiscal objectives:

a. An account of developments since the previous official forecast
b. A medium-term macroeconomic forecast, along with the assumptions underpinning it and a comparison with the previous official forecast and outside forecasts.
c. Medium-term fiscal forecasts, including detailed breakdowns of revenue forecasts (petroleum and non-petroleum) and the assumptions they are based on, and forecasts for public debt. Forecast aggregates are to be compiled according to [specify an internationally recognized accounting standard]
d. Projections for the Petroleum Fund, including revenues and expected drawdowns, over the long-term.
e. Fiscal policy for the deficit, debt, revenues and expenditure, including an explanation and costing of the impact of all significant fiscal policy measures introduced by the Government since the last BFP and an explanation of the methodology used to cost the fiscal impact of each of these measures.
f. A medium-term expenditure framework stating the Government's annual and medium-term expenditure intentions
g. A fiscal risk statement with quantified fiscal risks where practicable; and
h. A statement of responsibility signed by the Minister and the Permanent Secretary of Finance attesting to the reliability and completeness of the information in the Budget Framework Paper and its compliance with the law.

4.4: [The Full-Year Final Report on Fiscal and Economic Outturns shall publish outturn figures for the economic, fiscal, revenue and expenditure aggregates contained in the forecast, for the preceding 5 financial years. It will also publish a comparison to the forecast projections at the beginning of the year and an explanation for deviations.]

4.5: Schedule A to this Charter sets out the minimum requirements for information to be published in each report.

4.6: Schedule B to this Charter sets out the format in which this information will be provided.

Basis for preparation of forecasts

4.6: The Public Finance Management Act requires statements of budget honesty signed by the Minister and Secretary to the Treasury attesting to the reliability and completeness of the information provided therein.

4.7: These statements shall in particular include confirmation that:

- The forecasts are based on all Government decisions and all other circumstances that may have a material impact on the fiscal outlook.
- Where the fiscal impact of these decisions and circumstances can be quantified with reasonable accuracy, the impact should be included in the published projections.
- Where the fiscal impact of these decisions and circumstances cannot be quantified with reasonable accuracy, these impacts should be noted as specific fiscal risks.
- Macroeconomic, revenue and expenditure forecasts are prudent and realistic.

4.8: To ensure the prudence and realism of fiscal forecasting, the Government shall:

- [insert mechanisms or other measures to ensure prudent forecasting. E.g. pre-specification of key assumptions and/or their external validation.]

Schedule A: Minimum requirements for information to be published in the Budget Framework Paper and Half-Year Fiscal and Economic Update

The Budget Framework Paper shall contain at least:

1. An account of developments since the previous official forecast, including:
    a. Latest outturn figures for the key economic and fiscal aggregates set out in 2a and 3a to e below
    b. A comparison of those latest figures to the previous forecast
    c. A comparison of those latest figures to outside forecasters.

2. A medium-term macroeconomic forecast setting out
    a. Actual, estimated and projected values of economic variables for no less than the previous two years, the current year, and the next three years including:
        i. Gross domestic product and its components;
        ii. Inflation;
        iii. Employment and unemployment;
        iv. Exchange rates with major trading partners;
        v. Interest rates;
        vi. Money supply; and
        vii. Key export prices, outputs, and sales
        viii. Oil prices and estimated production;
    b. Assumptions underpinning the forecasts.
    c. A statement of the consistency or differences to forecasts from outside forecasters; and
    d. Information on the longer term macroeconomic forecasts.

3. Medium-term fiscal forecasts setting out:
    a. Actual, estimated, and projected values of the following fiscal variables, compiled in accordance with [specify an internationally recognized accounting standard] for no less than the previous two years, the current year, and the next three years including:
        i. The key determinants of the fiscal forecast, including figures for the tax base and other assumptions used to derive the revenue forecasts, oil prices and production.
        ii. Changes in those determinants since the last forecast
        iii. Revenues by type, including setting out separately
            1. Petroleum revenues
            2. Grants
        iv. Aggregate expenditures by classifications; [clarify how aggregated expenditure will be presented]
        v. Budget balances for:
            1. The [general government] fiscal balance, excluding [resource revenues and grants]
            2. The [general government] fiscal balance, including [resource revenues and grants]

vi. The level of debt by external source, internal source and total, expressed in net present value terms, nominal terms and as a share of GDP. The report should also set out the discount rate used to calculate net present values, and demonstrate it is consistent with expected GDP growth in interest rates.

vii. Estimates of petroleum revenues including:

1. Total future petroleum production and revenue by year over the expected lifetime of the resource;
2. Estimates of their NPV;
3. Long-term forecasts of the balance of assets in the Petroleum Fund and their expected depletion rate through appropriation to the Budget.

b. The accounting principles and methods used in the Budget Framework Paper and key assumptions on which the above numbers are based;

c. Forecasts for the longer term that have been taken into account in formulating the fiscal policies in the Budget Framework Paper. Such forecasts shall take account of the impacts of changes in demographics and other factors

d. Any other fiscal aggregates necessary to measure performance against the fiscal policy objectives set in this Charter; and

e. Any other information the Minister determines is material to the Budget Framework Paper.

4. Fiscal policy for revenues, debt, fiscal balance and expenditure including:

a. A summary table of the measurable fiscal objectives for no less than the previous two years, the current year, and the next five years including:

i. Aggregate [general government] expenditure as a percentage of GDP and in nominal terms;

ii. Government expenditure on wages and benefits as a percentage of GDP and in nominal terms;

iii. Government revenues as a percentage of GDP and in nominal terms, including and excluding resource revenues and grants;

iv. Fiscal balances for:

1. The [general government] fiscal balance, excluding [resource revenues and grants]
2. The [general government] fiscal balance, including [resource revenues and grants]

v. Total gross public sector debt as a percentage of GDP, in nominal terms, and in net present value terms as a percentage of GDP;

vi. Forecast Petroleum Fund balances as a percentage of GDP and in nominal terms

vii. Government net worth as a percentage of GDP and in nominal terms when net worth can be measured.

b. Information on the fiscal policies for medium term including:

i. The revenue policy with planned changes to taxes and policies affecting other revenues;

   ii. Deficit policy including deficit limits required by or implied by the fiscal objectives;
   iii. Debt policy and an analysis of debt sustainability with debt ceilings; and
   iv. Expenditure policy including expenditure priorities linked to ceilings in the medium term expenditure framework section of the Budget Framework Paper; and
c. An assessment of the consistency of the planned fiscal policy aggregates with the measurable fiscal objectives in this Charter and with the fiscal responsibility principles; and
d. Information on reasons for any deviations from them.

5. A medium-term expenditure framework stating the Government's annual and medium-term expenditure intentions including ceilings for:
   a. The aggregate expenditure ceiling to be used in the preparation of the Annual Budget which shall include ceilings for four further years;
   b. Government expenditure by [specify ministry or other spending unit] for the budget year and next two years to be used as the basis for the preparation of the Annual Budget; and
   c. Forecast non-financial performance information at a suitable level of aggregation linked to the budget to show what is planned to be provided and achieved for the proposed expenditure for strategic changes only; and
   d. Information on major public investments including priorities and rationale for these and forecast costs for the forthcoming budget year and two further years, related to expenditure ceilings.

6. A fiscal risk statement with:
   a. Quantified fiscal risks where practicable for:
      i. Contingent liabilities related to SoEs, PPPs, and sub-national governments;
      ii. Risks associated with external shocks, commodity price changes, and contingent liabilities;
      iii. Any commitments not included in the fiscal forecasts; and
      iv. All other circumstances which may have a material effect on the fiscal and economic forecasts which have not already been incorporated into the fiscal forecasts.
   b. Sensitivity analysis taking account of possible changes in macroeconomic conditions, including in particular alternative scenarios for GDP and for oil prices and production.

7. A statement of responsibility signed by the Minister and the Permanent Secretary of Finance attesting to the reliability and completeness of the information in the Budget Framework Paper and its compliance with the law.

The Half Year Economic and Fiscal Update shall contain updates of the above information and in addition:

1. A summary of the budget execution compared to the appropriations and other lawful spending authorities for the first six months of the financial year;
2. Information on how any changes in the forecasts or how actual fiscal performance for the half year may affect the performance compared to the Annual Budget for the financial year and compliance with the fiscal responsibility principles and achievement of the fiscal objectives in the Budget Framework Paper; and
3. Information on reasons for any deviations from the fiscal responsibility principles and fiscal objectives with plans to address any such deviations, and the expected time to achieve this.

Schedule B

The economic and fiscal content specified for inclusion in the Budget Framework Paper and Half-Year Economic and Fiscal Update shall normally be presented in the following manner:

[Charter to include template tables and charts as follows]

Title	Description	Time Period
Economic Forecast	Forecasts of • Domestic GDP figures • Sectoral and expenditure components of GDP • Balance of payments • Inflation • Regional and World GDP figures	T-2 to T+5
Changes to the Economic Forecast	The above data, but showing the change on the previous official forecast.	T-2 to T+5
Determinants of the Fiscal Forecast	Forecasts of key fiscal determinants, e.g., • Real and nominal GDP • Wages and salaries and profits • The tax gap • Oil and other export prices • Oil production	T-2 to T+5
Changes to the Fiscal Determinants	The above data, but showing the change on the previous official forecast.	T-2 to T+5
Summary of the effect of identified policy measures	Table showing the impact on the fiscal balance of policy measures enacted since the last official forecast, including: • Changes to tax rates and bases • Changes to expenditure plans	T-2 to T+5
Revenues	Detailed breakdown of revenue forecasts	T-2 to T+5
Changes to Revenues	The above data, but showing the change on the previous official forecast.	T-2 to T+5
Expenditure	Detailed breakdown of expenditure, showing votes, totals for Budgetary central government and items reconciling to total general government expenditure.	T-2 to T+5
Changes to Expenditure	The above data, but showing the change on the previous official forecast.	T-2 to T+5
Headline fiscal aggregates	Forecasts of: • The fiscal balances • Debt • The Petroleum Fund In nominal terms and as a share of GDP	T-2 to T+5

Title	Description	Time Period
Sensitivity analysis to the economic and fiscal aggregates	Alternative projections for the economy and public finances, varying key assumptions including GDP and oil prices.	T-2 to T+5
Comparison of external forecasts	Comparison of key aggregates to outside forecasters (e.g., IMF) including: • GDP • Inflation • Revenue • Expenditure • Fiscal Balances • Debt	T-2 to T+5
Successive forecasts and outturns for real GDP	A chart of real GDP forecasts for the last 4 BFP forecasts, plotted alongside the latest data.	T-5 to T
Successive forecasts and outturns for fiscal balance	A chart of fiscal balance forecasts for the last 4 BFP forecasts, plotted alongside the latest data.	T-5 to T
Errors in forecasting receipts, spending and borrowing for the last financial year.	A chart of errors on the receipts, spending and borrowing forecasts, comparing the BFP forecasts with latest data. Errors should be split into economic factors, policy changes, fiscal forecasting errors and classification changes.	T-1
History of revenue forecast errors	A chart showing the percentage deviation of the BFP revenue forecast from outturn.	T-5 to T
Breakdown of revenue errors	Revenue errors for the last financial year broken down by tax type	T-1
Breakdown of expenditure errors	Expenditure errors for the last financial year broken down by vote and other classification.	T-1

Appendix III. Uganda: Comparison of the Petroleum Fund Provisions with the Santiago Principles

Santiago Principles	Comments on the draft PFM Bill Nov 2013 version with MoFPED additions as at March 2014
GAPP 1. Principle The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s). GAPP 1.1. Sub-principle. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions. GAPP 1.2. Sub-principle. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.	No stated objectives for the Fund in the draft PFM Bill. Major issues with the legal framework for the Fund including: lack of a governance body and in its absence inadequate provisions for its governance given the lack of objectives for the fund and the potentially conflicting objectives of those in charge of various aspects of the Fund. For example, the Minister of Finance and MOFPED officials will have objectives relating to the management of the annual budget, while those in charge of the fund need to have objectives relating to benefit for future generations. There are also other issues with the legal framework more widely as noted in Appendix 1 that undermines the soundness of the legal basis for the Fund that include poorly specified reporting provisions and inadequate prohibitions on risky investments.
GAPP 2. Principle The policy purpose of the SWF should be clearly defined and publicly disclosed.	Draft PFM Bill lacks specific objectives for the fund. The fiscal principles in clause 5 are useful in this regard but are not linked adequately to fiscal decision making and reporting in the current draft and even if they were, are not as potentially powerful in protecting the interests of future generations as specific objectives for the Fund and a governing body charged with meeting them.
GAPP 3. Principle Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.	Potentially could be well aligned given the requirement for a formal Investment Policy and the involvement of the BoU in managing the investment fund, but there are issues in the Bill which undermine the formulation and execution of sound fiscal policy such as failure to link fiscal policy and reporting adequately to the fiscal responsibility principles, the Charter and BFP, and lack of clarity over the nature of the BFP and the link to the annual budget has to the BFP.
GAPP 4. Principle There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations. GAPP 4.1. Sub-principle. The source of SWF funding should be publicly disclosed. GAPP 4.2. Sub-principle. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.	There are two inconsistent definitions of the Petroleum Fund in clause 4; one as an account and one as a fund in the BoU (clause 51). Given these definitions then the withdrawal provisions in clause 57 do not make sense as they relate to a government account and not a BoU investment fund as per one of the definitions. Sources of revenues are in the law but fail to include the earnings of the investment fund. The definition of revenue in clause 4 does not include investment returns. Unclear how these returns are banked and managed.

Santiago Principles	Comments on the draft PFM Bill Nov 2013 version with MoFPED additions as at March 2014
GAPP 5. Principle The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.	Reporting requirements are unclear and include duplicate and incomplete reporting. Accounting and reporting standards are not required to be international ones.
GAPP 6. Principle The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.	Minister/MOFPED has a mixture of governance, advisory, reporting and operational roles that could conflict with what should be the long-term objectives of the Fund. As noted earlier there is no governance board so these functions rest solely with the Minister and officials for the Fund and the BoU for the investments. The Investment Advisory Committee can have non-government appointments but this committee does not have a governance role, only and advisory role.
GAPP 7. Principle The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.	Specific objectives for the Fund are not in the PFM Bill. There is no governing body. Minister/MOFPED has a mixture of governance, advisory, reporting and operational roles (excluding investment) that could conflict with what should be the long-term objectives of the Fund.
GAPP 8. Principle The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.	Potential for conflicts of interest as the Minister, PS/ST and MOFPED staff will have incentives to deliver on short term budget pressures while there are no long-term fund objectives in the law and no governing body to protect these. Minister, PS&ST and MOFPED staff hold key governance and advisory roles in relation to the Fund.
GAPP 9. Principle The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.	As above (GAPP 8). Minister, PS&ST and MOFPED staff hold key governance, advisory and operational roles in relation to the Fund. There are no provisions for BoU independence in the Bill (as there is for the Petroleum Authority in the recent law setting up that entity).
GAPP 10. Principle The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, Charter, other constitutive documents, or management agreement.	Only partially provided for by the agreement with the BoU but if it is envisaged there are funds outside this then the accountability framework is weak for these funds. The reporting provisions are unclear and inadequate, both for the MOFPED and BoU.
GAPP 11. Principle An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.	International accounting standards not required and reporting requirements are unclear.
GAPP 12. Principle The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.	International auditing standards not required and reporting requirements are unclear. No internal audit required for the BoU investment fund.

Santiago Principles	Comments on the draft PFM Bill Nov 2013 version with MoFPED additions as at March 2014
GAPP 13. Principle Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.	Not required by the Bill.
GAPP 14. Principle Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.	Not required by the Bill but could be covered in the BoU agreement.
GAPP 15. Principle SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.	Not relevant to the assessment of the draft legal provisions.
GAPP 16. Principle The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.	Management is not sufficiently operationally independent of the owner. While the BoU management provides some degree of independence, the BoU is subject to an agreement with the representative of the owner (the Minister), the investment policy is approved by the Minister, and the Annual Plan is approved by the Minister and the Annual Report approved by the Minister. The Minister also oversees the ministry that operates the fund's account and the transfers from the fund to the BoU investment portfolio and vice versa and to the consolidated fund for the budget purposes.
GAPP 17. Principle Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.	Accounting and reporting provisions are not adequate. In particular there are three unclear annual reports and the annual report for the BoU lacks a requirement for suitable benchmarking information, as do the periodic reports. Periodic reports have inadequate timing and publication requirements.
GAPP 18. Principle The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles. GAPP 18.1. Sub-principle. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage. GAPP 18.2. Sub-principle. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored. GAPP 18.3. Sub-principle. A description of the investment policy of the SWF should be publicly disclosed.	There are no objectives for the Fund for the investment policy to be pegged to. The objectives have been removed from an earlier draft. More specification is required in the Bill on what risky instruments are excluded as the current draft has removed some of the risky investments in an earlier draft. Management of fund managers may or may not be covered adequately in the investment policy. The minimum content of the policy is not well specified in the Bill by could be covered in regulations or the BoU agreement.

Santiago Principles	Comments on the draft PFM Bill Nov 2013 version with MoFPED additions as at March 2014
GAPP 19. Principle The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds. GAPP 19.1. Sub-principle. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed. GAPP 19.2. Sub-principle. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.	The Bill has basic provisions for a BoU investment policy which is publicly disclosed and the BoU managing according to "principles of portfolio management" but it is unclear what principles. The Bill lacks provisions excluding some risky investments this should be addressed both in regulations and in the agreement with the BoU.
GAPP 20. Principle The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.	Bill lacks use of information provisions; this must be covered in regulations.
GAPP 21. Principle SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.	Bill is silent on this but could be covered in regulations.
GAPP 22. Principle The SWF should have a framework that identifies, assesses, and manages the risks of its operations. GAPP 22.1. Sub-principle. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function. GAPP 22.2. Sub-principle. The general approach to the SWF's risk management framework should be publicly disclosed.	While the risk management framework cannot be commented on yet as it has not been developed, the Bill does not support the management of some risks. The prohibitions on risky investments that were in an earlier draft have been removed, such as limiting the portion of the portfolio held in securities, requiring investment grade rankings for all instruments, etc. (see appendix * for more detail). There is no governing board so the risk reporting and management will fall on public officials who may not have the time, skills and incentives to assess, report, manage and monitor the risks. The Investment Advisory Committee may not be constituted with sufficiently qualified people to formulate and monitor the investment policy and related performance given that 2 of the 5 are civil servant positions.

Santiago Principles	Comments on the draft PFM Bill Nov 2013 version with MoFPED additions as at March 2014
GAPP 23. Principle The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.	Bill lacks reference to international accounting, reporting and auditing standards. Reporting provisions are not sufficiently clear and are designed for an institutional fund but the institutional nature of it has changed in the drafting process, while the reporting has not been aligned to this change. Investment portfolio reporting is inadequate, lacking benchmarks and timely publication requirements.
GAPP 24. Principle A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.	Not relevant to the assessment of the draft legal provisions.

Principles from The International Working Group on Sovereign Wealth Funds made up of 26 countries with experience in SWF management.

Fiscal Affairs Department

International Monetary Fund
700 19th Street NW
Washington, DC 20431
USA
http://www.imf.org/capacitydevelopment