Appendix I. Letter of Intent

Kampala, February 23, 2022

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Madam Managing Director:

Uganda's efforts to reduce poverty and build pre-conditions for stronger growth over the last decade are being undercut by the prolonged COVID-19 pandemic and its effect on livelihoods and economic activity. A new lockdown was needed unexpectedly in June 2021 to counteract the effects of the deadly second wave of infections amid low availability of vaccines and inadequate hospital capacity. We have successfully managed to minimize the disease spread, including by accelerating our vaccinating drive. However, prolonged hardship stemming from suppressed demand, delayed external recovery, the threat of new variants and increased security tensions continue to weigh heavily on Uganda's prospects.

Putting our economy on the recovery path would require boosting social spending and continue supporting households and businesses. Immediate pressures on public health, education (for the reopening of schools) and on security as shown by the recent terror attacks on Kampala have required passing a supplementary budget. This included many priorities that we could not avoid and, in line with our commitments under the program, we took every care to limit a large deterioration in our fiscal deficit by identifying non-priority spending cuts. Revenue losses from subdued economic activity was also a challenge but we expect that trend to reverse following the lifting of the curfew and the full reopening of the economy (including of our schools) in January 2022.

The bedrock of our economic reform program remains Uganda's Third National Development Plan. The near-term response continues to rely on fiscal and monetary policy to protect livelihoods and support economic activity, subject to the government's financing constraints. To address medium-term challenges that include jobs and wealth creation by fostering private sector development, our program focuses on: (i) safeguarding macroeconomic stability by maintaining public debt on a sustainable path; (ii) mobilizing domestic revenues; prioritizing spending; (iii) strengthening reserve buffers; improving the Bank of Uganda (BOU)'s inflation targeting framework; and (iv) supporting financial sector stability. Generating more inclusive growth crucially depends also on strengthening governance, expanding the existing social safety net, implementing structural reforms to boost human capital and private sector development, and enhancing resilience to internal and external shocks including climate change.

We remain firmly committed to the implementation of our IMF-supported program. All end-September quantitative targets were met, including our primary balance that was met by a large margin, even as revenues fell short of targets reflecting the economic slowdown from the second COVID-19 wave. Cash releases made available for social spending exceeded by a large margin the indicative target, but the target on tax revenues was missed. Our structural reform agenda has experienced some delays, due in part to legal complications, but seven out of ten structural benchmarks that were not met by end-December have now been completed, while three were reset to reflect our legislative timetable and additional time needed to address technical issues. To reflect recent pressures on spending and the cyclical shortfall in revenue despite our strong implementation of our domestic revenue mobilization strategy, we request modification of the end-March 2022 quantitative performance criterion (QPC) for the primary fiscal deficit and net claims to government. We also propose a modification of the QPC for net international reserves for March 2022 to reflect recent market developments while remaining in line with our program objective of 4-month import coverage.

Looking ahead, the government believes that the measures and policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are appropriate and sufficient to achieve the objectives of the program but stands ready to take any additional measures that may be necessary. We will consult with the IMF on the adoption of such measures in advance of any revision of the policies contained in the MEFP, in accordance with the IMF's policies on such consultations. Timely information needed to monitor the economic situation and implementation of policies relevant to the program will be provided, as agreed under the attached TMU, or at the IMF's request.

We request the completion of the first review under the ECF and disbursement of SDR 90.25 million, and agree to the publication of this Letter of Intent and its attachments, as well as the related Staff Report, on the IMF's website.

Sincerely yours,

/s/
Hon. Matia Kasaija
Minister of Finance, Planning and Economic Development

/s/
Michael Atingi-Ego
Deputy Governor of the Bank of Uganda

Attachments:

- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

A. Introduction

1. The Ugandan government continues to react swiftly and decisively to protect the health of its population. Just as the economy started recovering from the first COVID-19 wave that peaked in December 2020, a 42-day partial lockdown—a bit less stringent than the four months lockdown introduced to curb the first wave—was introduced in June-July 2021 to mitigate the impact of the second COVID-19 wave. This measure—along with our vaccination program (13 million persons vaccinated with at least one dose by end-January 2022), curfew restrictions, and school closures—helped us keep the number of COVID-19 cases and fatalities contained. Our aim is to continue accelerating our vaccination program to ensure we fully vaccinate 22 million adults in 2022, to avoid future lockdowns following the full reopening of our economy in January 2022.

2. In response to the economic hardship induced by the pandemic, we have continued supporting the vulnerable population despite tight financing constraints. The economic fallout of the pandemic has been steep— partly reversing some of the poverty gains from the past ten years, despite the government's proactive monetary, financial and fiscal policy responses, taken early in the pandemic to cushion the impact of the shutdowns on households and businesses. To further mitigate the impact of the latest lockdown, we mobilized in August 2021 funding for emergency COVID-19 cash transfers to support 497,000 people (Ush 100,000 – about $28 for each vulnerable household) who were left out of jobs, 48 percent of whom are women. Effective October 1, 2021, Bank of Uganda (BOU) extended the credit relief measures for the education and hospitality sectors by one year to September 30, 2022, because they were significantly affected by the outbreak of the Covid-19 pandemic.

3. The economic program presented in this Memorandum of Economic and Financial Policies (MEFP) supports our National Development Plan (NDPIII), which is being updated to ensure priorities remain aligned with protecting livelihoods and supporting the recovery. NDPIII implementation will be critical in a post-COVID-19 environment to foster private sector-led growth. This MEFP describes specific policies and measures the government will implement during the period 2021-24 under a three-year ECF arrangement. Support from our international partners remains key to the success of our policies. We are grateful for their generous help during the pandemic, demonstrated by their readiness to supply much-needed vaccines and facilitate their deployment. We will continue to rely on development partners' support—financial and technical—in implementing the policy framework outlined in this MEFP.

B. Economic and Social Developments

4. Economic activity is gradually recovering. Growth in FY20/21 remained at about half its pre-COVID-19 pace as the rapid resumption of activity registered in Q3/Q4 of FY20/21—when the first four-month lockdown was lifted, and external demand improved—was not enough to offset the severe contraction registered earlier in the year. More recently, leading indicators, such as the

Purchasing Manager's Index and the Composite Index of Economic Activity, are pointing to employment rising for the first time in six months as companies responded to sustained increases in output and new orders.

5. Core inflation remains well below the BOU's 5 percent mid-point inflation target. The rebased Consumer Price Index (CPI) published by the Ugandan Bureau of Statistics (UBOS) in April 2021 is now used to monitor inflation. The new figures show core inflation significantly below target since May 2017, while picking from 2.1 percent y-o-y in October 2021 to 2.3 percent y-o-y in Jan 2022. During the same period, headline inflation remained below 3 percent, despite increases in food, energy and transportation prices.

6. Higher external portfolio inflows have helped finance a deteriorating current account deficit. Driven by increasing private sector imports, low remittances, high public sector imports and weak tourism receipts, the current account deficit reached 10.2 percent of GDP in FY20/21. It was mainly financed by budget and project support loans as well as a significant pickup in non-resident portfolio inflows, which reached $364.3 million in FY20/21 and pushed the stock of non-resident holdings of government bonds to about $806.2 million by November 2021. The shilling appreciated by 4.4 percent year-on-year at end-January 2022. Due to relative stability in the foreign exchange market, the BOU was able to make a net purchase of reserves of $141.4 million in January 2022. Helped by the recent SDR allocation, gross international reserves increased to $4.2 billion (4.4 months of imports) in January 2022 from $3.9 billion at end-June 2020.

7. The BOU pursued an accommodative monetary policy stance. From March 2020 to June 2021, the policy rate was lowered three times by a cumulative 250 bps to 6.5 percent. The Monetary Policy Committee kept the policy rate unchanged in August, October, and December 2021 with concerns about monetary policy normalization in advanced economies, capital outflows, disruptions to global supply chains, and pressures from global commodity prices offsetting worries about domestic excess capacity and sluggish private sector credit growth. The latter did, however, pick up slightly to 9.3 percent in October (y-o-y) partly because of the partial resumption of economic activity following the lockdown.

8. The deterioration of the fiscal deficit (on a cash basis, as measured under the program) in FY20/21 to accommodate the impact of the COVID-19 pandemic was less than initially programmed. The better-than-expected performance of about 0.5 percent of GDP reflected three main factors: (i) stepped up tax administration efforts that yielded tax arrears collection (about 0.3 percent of GDP); (ii) lower execution of public investment projects, which reflected low absorption capacity and financing shortfalls that delayed implementation of certain projects (0.2 percent of GDP); and (iii) the inability by some ministries to spend the cash releases provided later in the year, which postponed payments to the next fiscal year (0.4 percent of GDP).

9. Continued reliance on BOU advances—and increased participation of non-resident investors—helped finance our deficit and offset external financing shortfalls. External financing fell short of the target as administrative obstacles delayed loan disbursements from the African Export-Import Bank (1 percent of GDP) and the African Development Bank (0.1 percent of GDP). This financing shortfall contributed to the delay in repaying BOU advances provided for the redemption of Treasury securities (around 2 percent of GDP) by June 2021. With government bond yields remaining attractive, offshore investors more than doubled their holdings of Treasury securities, which helped shift the composition of our financing, which was tilted towards banks.

10. The lower fiscal deficit, and exchange rate appreciation kept the debt-to-GDP ratio at 49.1 percent (including outstanding advances to the BOU), below the projected 50.2 percent. The large interest in the government bond market from both foreign and domestic investors, combined with lower government financing needs, have helped contain the rise in government bond yields. The risk of debt distress is moderate based on the latest Debt Sustainability Analysis.

11. The banking sector is profitable and well-capitalized, but some vulnerabilities remain a concern. In addition to the exceptional liquidity made available through the Lombard Window and Exceptional Liquidity Assistance Facility, the BOU introduced credit relief measures in April 2020, which helped mitigate the impact of the pandemic on the financial sector. Such measures helped contain NPL ratio for commercial banks in particular, which declined to 5.3 percent in December 2021 (from a peak of 6.0 percent in June 2020), with the total capital ratio and the liquidity coverage ratio averaging 22.3 percent and 244.7 percent over the year to December 2021—well above the minimum prudential requirements of 10 and 100 percent, respectively. After peaking at 31.2 percent of total loans in June 2020, the stock of restructured loans amounted to Ush 3.1 trillion (or 16.7 percent of total loans) as of end December 2021. The supervised financial institutions (SFIs) continue to proactively provision for NPLs, with SFIs' provisions rising by 17.7 percent compared with a year ago.

C. Program Performance

12. All end-September quantitative performance criteria were met while one indicative target was missed (Table 1). The primary deficit ceiling and the non-concessional borrowing limit were met in June and September despite the challenging economic environment and reflect our commitment to fiscal responsibility. Facing revenue shortfalls in the first quarter, we cut discretionary expenditure to stay within the limits. The net international reserves floor was also met on both test dates while repayment of past arrears was overshot in September. The targets on tax revenue, net claims on government, the floor on social spending and the floor on the repayment of arrears was missed either in June or September but the deviations were corrected.

- **Net claims on government:** The indicative target was missed in June, as only direct BOU advances to the Treasury were repaid (in line with the PFM Act) while advances provided to redeem the large stock of government securities remained on the BOU's balance sheet. We met the QPC in September.
- **Tax revenues.** We met the indicative target (IT) in June but missed the IT in September by Ush 359 billion (0.2 percent of GDP), despite having implemented all the programmed DRMS measures, due to the fallout from the second wave of COVID-19 infections, including the partial lockdown, and lower economic activity. With the recovery of activity in the second quarter, the

full reopening in January 2022, and planned additional tax policy and administration measures, we expect to recover some of the shortfall in the second half of the fiscal year.

- **Priority social spending.** Cash releases made available for priority social spending exceeded the indicative target by a large margin, but low absorption capacity at the end of FY20/21 meant that the funds released were not spent entirely by end-June 2021, but rather postponed until the next quarter. Hence, the IT (floor) for end-June 2021 was missed. At the same time, as a result of the payment of these releases in the first quarter of FY21/22, the floor on social spending was met in September. The floor on support to vulnerable households was met by a large margin in September.

- **Repayment of domestic arrears:** The floor on the repayment of arrears was not met in June 2021 because low absorption capacity led to the delayed disbursement of a part of the amount released for this purpose.

13. We have encountered difficulties in implementing our structural reform agenda which has delayed the implementation of our structural benchmarks (SB) (Table 2a-c). The framework for tracking COVID-19 spending was adopted by end-August in line with the program. The amendments to the BOU Act were submitted to the Cabinet in January 2022 (SB, end-December 2021, prior action). They are expected to be adopted by parliament by September 2022. While none of the remaining benchmarks were met in 2021, we have implemented all of them with delay by February 18, 2022, and request resetting the timeline for three to accommodate legislative, technical and legal requirements that are beyond our control.

- The **Service Level Agreement (SLA)** between the Ministry of Finance, Planning and Economic Development (MoFPED) and the BOU to govern central bank financing of the government was signed with delay following institutions-wide consultations on the determination of the interest rate applicable to advances by the BOU and the definition of advances that now incorporates debt redemptions done by the BOU on behalf of the government. The SLA now governs the repayment of advances for past debt redemptions for the next two years and an addendum introduces a broader definition of advances from FY 23/24 (SB end-July, prior action).

- We have adopted a **public investment prioritization framework** on time. However, publication of the pipeline of projects that could be included in the budget using the adopted project selection criteria was met with delay on January 17, 2022 (SB, end-September).

- We are facing delays in the upgrade of the **unified registry of social assistance programs** to include beneficiaries of the National Social Security Fund and the public pension scheme due to IT challenges related to the migration of data from the Integrated Personnel and Payroll System to Human Capital Management Information System (SB end-September). Moreover, we necessitate further legal consultation to clarify data protection needs and address privacy concerns. We therefore request resetting of the deadline to end-June 2022.

- We have adopted a regulation requiring financial institutions to exercise enhanced **due diligence for domestic politically exposed persons** with delay, on January 14, 2022. This measure required internal consultations, including an opinion of the Attorney General and banks to ensure there is sufficient understanding and guidance on the implementation of this regulation. (SB end-September).

- We have finalized and adopted a **tax expenditure framework** with delay after validation with stakeholders. We have also published with delay our second annual tax expenditure statement on January 11, 2022 (SB end-October).

- Following extensive consultations with the Attorney General, we plan to elevate the current treasury instruction containing provisions on **sanctions for officers responsible for unauthorized spending commitments** with clear personal penalties into a regulation, but that would require more time for the legislative process and thus we request resetting the SB to June 2022.

- We published with delay the **quarterly report on unpaid invoices** which can now be extracted automatically from FMIS. Further configuration will capture the payments due date. (SB, end-November, prior action).

- Amendments to the Company Act necessary to establish a beneficial ownership registry would require adoption by Parliament. This is a priority for us in view of the FATF listing requiring timely **access to accurate beneficial ownership information of legal entities.** We request resetting this November 2021 SB to end-June 2022 to allow for the domestic coordination and appropriate legislative process, which took longer than initially expected.

14. The government's governance commitments, which were made at the time of the RCF, have now all been met:

- We have extended **the special independent audit for COVID-19 spending,** which was completed for the first three quarters of FY20/21, to the full FY20/21 on time. It was published on February 15, 2022 after our presentation in Parliament in early January (prior action). This report is the second one after our published COVID-19 FY 19/20 audit.

- We have **prepared a comprehensive report of COVID-19** spending for FY20/21 and cash releases for the first two quarters of FY21/22 (link).

- After adoption of the new procurement template, we issued on December 15th a new circular instructing all accounting officers to collect beneficial ownership information for all contracts—hence going even beyond the requirement of collecting it only for the COVID-19-related large procurement contracts as we thought it an important reform. With the template for new bids requirement now already in use for ongoing procurement contracts, we have published a **list of COVID-19 procurement contracts**, including the names of winning bidders as well as their beneficial owners (prior action).

D. Macroeconomic Outlook and Risks

15. Our baseline assumes a strong rebound in economic activity after the full reopening in January 2022. While the impact of the second COVID-19 wave and the latest lockdown on economic activity led to a downward revision in FY21/22 growth from 4.3 to 3.8 percent, our expectation is that the recent lifting of the curfew and reopening of schools will generate a strong rebound in the second half of the fiscal year, which will be accompanied by a pickup in manufacturing, services, and construction. Over the medium term, government investment in oil-related infrastructure, the energy sector and transport, coupled with a recovery in manufacturing, construction, external demand, and reform implementation—including better fiscal spending composition and efficiency and strengthened governance framework—will bring annual growth above 6 percent. The recent agreement on the oil pipeline between the French oil company Total, the Chinese oil company CNOOC and the governments of Uganda and Tanzania, and the parliamentary approval of three bills regulating the oil sector were decisive steps towards the conclusion of the final investment decision in February 2022. Inflation is projected to remain within the IT band in the near term, with core inflation reaching the mid-point inflation target of 5 percent by FY23/24, driven by higher aggregate demand, accommodative monetary policy and greater exchange rate flexibility.

16. We are committed to maintaining our reserve cover at an adequate level and strengthening it over time. The current account deficit is expected to narrow gradually to about 5 percent of GDP (excluding imports related to oil project financing and investment related imports)—a level consistent with the historical average—in FY24/25, reflecting our fiscal consolidation strategy, further recovery in global demand, and oil coming on stream. Private sector flows, donor financing, greater foreign exchange rate flexibility, and the recent SDR allocation will help keep reserves at 4 months of import cover (defined as months of next year's imports of goods and services excluding oil project financing and investment related imports) during the program, before increasing to the East Africa Community target of 4.5 months once oil production starts in 2024/25.

17. Risks to the outlook are mostly to the downside. A less benign external environment—including a slowdown in the global recovery and tighter global financial conditions—could weigh on the outlook. A slower pace of reform implementation, a resurgence of lockdown measures linked to new variants and higher COVID-19 positivity rates, higher credit risk, and more intense social and security risks would also weigh on the outlook. Moreover, slow execution of public investment projects and further delays in oil investments could dampen the growth outlook further, while an increased frequency and intensity of climate shocks, including droughts and floods, could undermine agricultural activity and further increase poverty and food insecurity in rural areas. On the upside, a faster implementation of the vaccine rollout and higher donor financing would help boost economic activity.

E. Economic Policies

18. Facing persistent COVID-19 challenges, we had to re-prioritize the implementation of the Third National Development Plan (NDPIII), centering it more narrowly on the near-term support to economic activity and health. We remain focused on macroeconomic stability and structural reforms that ease bottlenecks, including governance and fostering public sector efficiency. Areas of refocus reflect the government's current priorities and strategies: (i) business activity and financial inclusion, through interventions including a business recovery fund for SMEs and better use of developmental finance through UDB; (ii) restoring the well-being of the population through vaccination and sustainable re-opening of education; (iii) maintenance and availability of productive infrastructure including e-government, e-procurement, e-learning and roads; (iv) fast tracking industrialization and manufacturing focusing on value addition and operationalization of industrial parks; (v) improving public sector efficiency through rationalization and implementation of the Parish Development Model, which is the government' new strategy for accelerating wealth and job creation, and improving service delivery at parish level.

19. We plan to vaccinate 22 million Ugandans by end-2022 despite deployment obstacles. Successful and durable re-opening of the economy hinges on reaching herd immunity of the population. We have prioritized vaccination of 4.5 million essential workers (health staff, police, military, and education staff) and elderly based on their vulnerability, which were all vaccinated by January 2022. Inoculations are progressing at higher speed as more vaccines have become available recently. We have managed to deploy more than 13 million vaccines to date using both government funds and donations from our development partners.

Fiscal Policy

20. The FY21/22 fiscal policy stance was revised to accommodate the effects of the second pandemic-related lockdown while accounting for unexpected events. Specifically, the lockdown led to significant revenue shortfalls, while the spending envelope increased on the back of delayed execution of some spending commitments from FY20/21, as well as additional spending to mitigate the impact of COVID-19 and address security challenges revealed by the recent terror attacks in Kampala. The fiscal deficit (cash basis) is thus expected to reach 7.5 percent of GDP in June 2022, about 1.1 percent of GDP higher than programmed reflecting:

- **Revenue shortfalls (0.6 percent of GDP).** As planned, we implemented the domestic revenue mobilization (DRM) measures announced last June, including the increase in fuel excises and introduction of new excise duties, and strengthened our audit and arrears management practices. However, a revenue shortfall of almost Ush700 billion was nevertheless recorded in the first four months of FY21/22, on account of lower contributions from large taxpayers (real estate, construction, and transport). Moreover, sales of fuel products and consumption goods were more limited than anticipated. Against the backdrop of the full reopening of the economy, we expect revenue collection to rebound in the second half of the year and yields from DRM measures to increase, thus keeping the annual shortfall contained at USh 924 billion.

- **Unpaid invoices from FY20/21 (0.4 percent of GDP)**, including for social and security spending (0.05 and 0.02 percent of GDP respectively).

- **A supplementary budget**, allocating an additional spending of Ush 3.8 trillion (2.4 percent of GDP), was approved by Parliament in November 2021.

- **Spending cuts (2.3 percent of GDP)** partially offset the increase in spending. Cuts include the elimination of workshops and travel, an across-the-board reduction by 40 percent in the non-priority spending of unprotected budgetary votes, the non-implementation of some items in the supplementary budget, and the lower-than-expected execution of externally financed projects.

21. Social spending increased relative to the original target. As a result of new expenditures and cuts, social spending increased by 0.3 percent of GDP relative to the ECF target for FY21/22. At the same time, security spending is 0.4 percent of GDP higher to address heightened enforcement linked to COVID-19 (including the lockdown and the curfew), operational shortfalls in the military during a period where the country needs to respond to terror attacks, and possible troop deployment at the border.

22. The higher financing need will require delaying the repayment of BOU advances further. The financing need will be covered through (i) additional domestic borrowing from both banks and nonbanks—including non-resident portfolio investors; (ii) the disbursement of the loans by AfDB and Afriexim Bank originally planned for FY20/21; and (iii) the use of deposits. At the same time, there will be no room to fully repay BOU advances this year. Accordingly, we will repay Ush 533 billion this year, while the remaining outstanding amount of Ush 2.5 trillion will be repaid over a two-year period starting in FY22/23 at market rates to provide additional room for accommodating a higher deficit. New BOU advances will be capped at 10 percent of current year's revenue going forward, in line with the new proposed Banking Act, and the outstanding stock will be repaid.

23. To ease financing constraints and replace more expensive borrowing, we have decided to use half the SDR allocation (about $250 million) to finance priority social spending. We are committed to using this financing for education, health and water and sanitation projects, including to help facilitate school reopening. A detailed spending plan for SDR use has been finalized (MEFP Table 3)—and a special monitoring report will be produced on a quarterly basis to track budget execution.

24. We have made efforts to procure sufficient vaccines thanks to World Bank financing and donations from developing partners. The World Bank grant for US$ 117 million is expected to procure about 17.7 million doses of vaccines. These doses would cover about 26.4 percent of the overall population, slightly over half of the national target of vaccinating 49.6 percent of the population (22 million people). Another US$ 20.2 million is dedicated to deployment interventions, thereby bringing the total World Bank financing for vaccine acquisition and deployment to US$ 137 million. We are hoping to fill the remaining funding gap of $27.6 million for the acquisition of vaccines through additional donations. There is a need, however, to ramp up deployment efforts in the short-term so that the vaccines can be used up quickly.

Medium-Term Fiscal Policy and Debt Sustainability

25. We remain committed to fiscal consolidation, which is necessary to keep debt sustainable and avoid a deterioration in the risk of debt distress. The pace of adjustment will remain the same as envisaged at the onset of the program. However, the deficit level in FY 22/23 will be higher on account lower revenues and some unexpected spending to contribute to oil infrastructure projects and ensure that oil production starts in FY 24/25 (we previously expected the upfront burden to be fully paid by our partners). While this would imply a large fiscal adjustment in FY22/23, the path remains feasible in view of the one-off nature of some of the pandemic-related social spending and security spending, which will be phased out over the next two years. Although the fiscal deficit is projected to halve over two years to FY23/24, to 3.5 percent of GDP, the debt-to GDP ratio will temporarily increase above 50 percent of GDP before converging below 50 percent of GDP by FY25/26 as the fiscal deficit declines to the 3 percent of GDP medium-term target set in the Charter of Fiscal Responsibility (CFR) Law adopted by Parliament in January 2022.

26. Our fiscal consolidation strategy will rely on revenue mobilization and spending prioritization that preserves resources for human capital development. The main elements of our strategy include:

- **Implementation of the DRM Strategy**. Implementation of our tax administration and tax policy agenda is expected to yield 0.7 percent of GDP in FY21/22 and 0.5 percent of GDP on average per year over the medium term. Our medium-term revenue strategy, which is being updated continuously and costed to reflect changes in the policy environment, will enhance the income tax system, improve the excise duty regime, and strengthen VAT productivity, including by reducing exemptions and reviewing the VAT registration threshold. Increasing taxpayer registration, enhancing voluntary compliance and improving arrears management remain our main areas of focus on tax administration. Streamlining tax expenditures remains a key priority. Building on last year's practice, we increased transparency in this area by publishing on January 11, 2022 the FY20/21 tax expenditure statement on the MoFPED website (link). In line with our reform plan, a tax expenditure prioritization framework has just been validated by a stakeholder workshop and adopted by the MoFPED in January 2022 (SB). We plan to use the new framework and methodology developed to design a tax exemption rationalization plan that identifies at least 0.1 percent of GDP in tax exemptions that can be rationalized in FY 2022/23 and at least 0.2 percent of GDP in subsequent years to contribute to our revenue collection objective (end-June SB).

- **Reduction of non-priority spending.** We will continue to identify cost-saving measures by asking Ministries to ensure that the spending priorities are aligned with NDPIII priorities at the planning stage. Priority spending—including investments chosen according to our newly published project selection criteria— will be saved. Projects that have not been appraised or selected using the new criteria or do not have identified funding will be cut. We have sought IMF technical assistance to conduct a public investment management assessment, expected in the first half of 2022. It will help assess and address the remaining gaps, including on establishing medium-term fiscal envelope forecasts to better prioritize capital spending, publishing multi-year public investment plans in line with the medium-term budget framework, and exercising rigorous public investment portfolio oversight.

27. In case downside risks materialize or financing assurances do not materialize, we will cut non-priority spending, to safeguard the fiscal goals of the program. To help us in this regard, we will also consider implementing a temporary freeze on new project commitments, delay projects that have not started or have yet to receive financing. Contingency revenue measures identified as part of our DRMS will also be considered.

28. The program will also target higher priority social spending of about 0.7 percent of GDP. While the scope for further increases in social spending is limited by the debt outlook that has been significantly affected by the fiscal response to COVID-19, the targeted increase in social spending will reverse the decline in public education and health spending. We will also boost social assistance programs. To support targeting of beneficiaries, we will expand our national identification database and the unified national registry of all social assistance programs.

- **Northern Uganda Social Action Fund (NUSAF).** With NUSAF 3 ended in June 2021 (and had targeted 2,983,000 beneficiaries), a successor NUSAF 4 is currently being considered by the Cabinet and will expand the geographical scope to the eastern region which has high levels of poverty and vulnerability and increase the number of beneficiaries. We have concluded negotiations for a successor NUSAF in January 2022 and expect the first disbursement to arrive in the second quarter of FY22/23.

- **Urban Labor-Intensive Public Works program**, which will target 637,000 beneficiaries and will help address the impact of COVID-19 pandemic amongst poor and vulnerable households in urban and flood-affected areas in 16 flood-prone districts and 13 urban centers. We plan to launch the pilot in 2022] using a $300,000 funding from ILO.

- **Senior Citizens Grant (SAGE),** which has now been rolled out to all the districts to support beneficiaries aged 80 and above. We have scaled up the total number of beneficiaries from 150,000 in FY19/20 to 350,000 in FY20/21. We also plan to expand coverage of SAGE over the next few years and will soon finalize a cabinet paper to lower age eligibility to age 70 and above. Due to funding shortfalls during FY20/21, the program accumulated arrears worth Ush 36.07 billion, which we plan to make up in next year's budget.

- **Emyooga,** which is a presidential initiative aimed at wealth and job creation by supporting vulnerable groups, including women, youth, and persons with disabilities. All economically active Ugandans aged 18 and above can benefit from this initiative, which targets 18 specialized enterprises. But members under the youth category should not exceed 35 years of age. It is administered by the Ministry of Finance and implemented through the Microfinance Support Center Ltd. Ush 390 billion has been disbursed by the Ministry of Finance to the Microfinance Support Center since the program's inception in FY 2019/20. We have supported 205,710 out of the 250,000 targeted beneficiaries in creating savings and credit cooperatives (SACCOs). We have extended credit to 5,903 of the 6,275 registered Emyooga SACCOs. The latter have spent Ush 176.52 billion in credit to 42,820 of their member associations. The seed capital by the Ministry of Finance has been supplemented by Ush 55.5 billion own savings from Emyooga associations, which has helped increase their capacity to extend credit to their members.

29. Strengthening public financial management will be a central part of our medium-term fiscal program. This will evolve around four main axes:

- **Improving the budget preparation process**. We will ensure that ministries submit for the budget all foreseeable expenditures, which should be costed. We will do our utmost to avoid supplementary budgets, including by ensuring these are limited to unforeseeable unexpected shocks. In the exceptional case where a new one was to become necessary again, we will, in consultation with IMF staff, ensure that any supplementary budget requests are costed, financing sources identified, and debt impact assessed.

- **Reducing the outstanding stock of domestic arrears and preventing new accumulation.** Our first step in addressing this issue has been to publish in May 2021 the international E&Y audit of domestic arrears, which has shown that our stock has averaged about 3.2 percent of GDP since FY16/17. We have increased budget provisions for the clearance of domestic arrears in FY21/22 and will continue to prioritize and repay them in subsequent years. Between 2016 and 2021, we converted 87 percent of electricity accounts into pre-payment accounts. The remaining ones belong to the Ministry of Defense, which we are adding gradually. For FY21/22, we have obtained approval to add 25 percent of the Ministry of Defense accounts while the remaining require regulatory approval, which we have sought from the regulatory authority. Our program will also put in place measures to prevent further arrears accumulation by:

    - **Implementing our recently adopted domestic arrears strategy** which was published in June 2021 on our website (link). The strategy identifies new priorities that need to be addressed to close any remaining gaps, including through:

        - **Strengthening commitment controls.** To that end, we started issuing system-generated purchase requisitions, to prevent expenditure arrears by avoiding expenditure commitments outside the system. Elevating sanctions for unauthorized spending from the current Treasury instructions to PFM regulations to facilitate enforcement is now planned for June 2022 (reset SB from November 2021). In the meantime, we plan to rigorously implement existing sanctions, which will be published by June 2022 to help provide more dissuasion. Commitment controls are also being strengthened through automatic confirmation of fund availability before incurring expenditure commitments, which is being complemented by automatic registration of invoices in the expenditure commitment module of our financial management information system.

        - **Monitoring through quarterly reporting of** unpaid government financial obligations showing due date and recorded in the authorities' Financial

Management Information System (FMIS). The aim is to ensure that these quarterly reports—the first of which was produced in January 2022— converge towards no unpaid bills in FMIS after 90 days.

- **Ring-fencing** the budget provisions allocated to clearing domestic arrears to prevent them from being redirected to other budgetary spending. Implementation is reported through individual entities' budget execution quarterly report.

- **Strengthening cash management reforms.** We have sought IMF technical assistance to support cash management reforms and help us operationalize monthly and quarterly cash flow forecasts by end-FY2021/22. Reforms undertaken so far include:
  - **Extending the Treasury Single Account (TSA) to extra-budgetary units and other agencies**. To that end, we have converted 10 extra-budgetary entities into votes and included them in the TSA at the beginning of FY21/22. A list of the 73 remaining extra-budgetary units and agencies has been prepared and will be analyzed for inclusion in the TSA progressively. We are also engaging donors on disbursing externally funded projects through the TSA.
  - **Improving gradually the accuracy of monthly cashflow forecasting** to help improve quarterly and cash flow balances. Starting with FY2021/22, we have issued a circular for rolling out an online module to all ministries, departments and agencies to report their spending projections in order to inform cashflow forecasting. This has enabled us to identify monthly cash requirements for major spending entities, and we plan to capture the remaining ones starting in March 2022 after the online module is fully tested.
  - **Preparing an aggregate borrowing plan that takes into account the government's consolidated cash position in and outside the TSA**. Currently, we only receive the annual position of balances on government accounts in commercial banks in the Annual Board of Survey. To improve our cash planning, we will reconcile the central government deposits in commercial banks reported in the monetary surveys with records of government bank accounts held outside the TSA monthly.

- **Enhancing budget transparency**, by publishing a statement of fiscal risks in the budget framework paper for FY22/23 that lists contingent liabilities and reports on risks arising to the budget. Following the Auditor General report on FY 19/20 expenditures, weaknesses in the expenditure processes identified will be presented to the Secretary to Treasury who will report in a public document to Parliament by end-June 2022 the steps taken to strengthen the process (new SB). To further enhance fiscal transparency and support fiscal sustainability, the government will strengthen macro fiscal reporting by preparing and publishing the medium-term fiscal framework in line with the Government Finance Statistics Manual of 2014 (GFSM2014) (SB, May 2022).

30. In preparation for oil revenue management, our medium-term fiscal plan includes the adoption of a fiscal rule for managing oil revenues:

- We **prepared a CFR**, which has been discussed in Parliament and expected to be adopted soon (July 2022 SB). It provides for a fiscal rule, which will aim at establishing the non-oil primary balance as the operational fiscal target for when oil comes into production. This will prevent pro-cyclical spending. In addition to numerical limits or targets on fiscal variables and above-mentioned PFM pre-requisites, the CFR contains key provisions to account for: (i) corrective actions in case numerical targets are breached; (ii) escape clauses; (iii) transitional arrangements to bring the debt and fiscal deficit to levels prescribed by the fiscal rule; and (iv) institutional arrangements to monitor and enforce the rule.

- Parliament amended the PFM Act to allow Uganda National Oil Company to retain a portion of the proceeds from the sale of petroleum accruing from the Government's State participating interest in production-sharing agreements to meet Government's and UNOC's financial obligations in the Tariff and Transportation Agreement, the Production Sharing Agreements, and the Joint Operating Agreements. For purposes of meeting the cited obligations, the NOC shall present the budget estimates to Parliament and upon approval by Parliament, shall use the proceeds retained.

Debt Management Policy

31. Our debt management framework remains appropriate. Over the past decade, we have enhanced debt transparency, both in terms of fiscal reporting and the publication of debt data and debt management information. Our recent reform of primary dealership has led to higher investor participation in the domestic Treasury security market. Nevertheless, we will aim to further enhance transparency, including by publishing data on state-owned enterprise debt and contingent liabilities by June 2022, as well as to improve communication. We will also aim to broaden the scope of potential creditors and financing sources, including by introducing a public investment financing strategy, creating expression of interest guidelines, and setting up a mobile money platform for retail investors to purchase Treasury securities. This will support our commitment to seek additional donor financing during the remainder of the program under the ECF. Over the medium term, large infrastructure projects (e.g., railway lines) will lead to a slight shift in the composition of financing towards non-concessional loans. However, going forward, we plan to closely follow the goals laid out in our Medium-Term Debt Management Strategy, including increasing the maturity of domestic debt. We will also make every effort to seek additional grants from donors or additional concessional lending from other IFIs beyond the amounts currently committed. Debt is projected to remain sustainable and is currently at a moderate risk of debt distress.

Monetary and Exchange Rate Policies

32. The BOU remains committed to achieving the inflation target over the medium term, with the reduced fiscal dominance helping improve the effectiveness of our policy rate instrument. Elevated domestic public borrowing has contributed to keeping lending rates high as banks increased their holding of government securities. Moreover, direct advances to central government have contributed to excess liquidity in the banking system, resulting in costly actions to keep the interbank market rates aligned with the policy rate. Our program's proposed fiscal adjustment will enhance monetary policy transmission and effectiveness. To further support the functioning of the monetary policy framework, the BOU will:

- **Continue monitoring inflation developments closely** and stand ready to adjust the policy rate in both directions as needed: a further reduction in the policy rate may be needed if the expected acceleration in inflation fails to materialize and, on the other hand, a hike may be necessary if core inflation is set to increase above the upper band inflation target (5+/-3 percent) in an 18-month horizon. The inflation consultations clause will remain a key pillar of the program.

- **Continue building its Forecasting and Policy Analysis System (FPAS)** capacity to support monetary policy formulation under our price-based framework. In particular, we are developing nowcasting tools to help provide us leading indicators that can help better inform the MPC. We are also strengthening our external communication, including through IMF TA.

- **Continue fine tuning liquidity forecasting.** We will continue strengthening market intelligence around the prevailing market liquidity conditions to guide the choice of the appropriate open market operations tools. The repurchase agreements (repos), BOU Act, recapitalization securities, are the main instruments for managing liquidity at different maturities.

- **Limit direct BOU financing of fiscal operations.** In view of the government's financing constraints, we have agreed that advances provided for treasury redemption will be repaid by the end of the ECF-supported program in June 2024. From January 2022 onwards, all advances provided by the BOU will be governed by the within-year limits of 10 percent of current year domestic revenue**.** We have also clarified existing rules on advances to the government[1] (including for debt redemption), as noted above, by adopting a SLA and an addendum between the BOU and MoFPED (prior action) to: (i) ensure that the government account at BOU has sufficient funds for servicing government debt through the BOU; (ii) include appropriate safeguards—including market interest rates (as prescribed in the BOU Act)—for within-year credit provision; and (iii) clarify modalities for the repayment of outstanding advances.

33. An independent central bank remains essential to maintaining Uganda's hard-earned macroeconomic stability and monetary policy credibility. In line with the safeguards' assessment recommendations and the BOU reform agenda following the 2019 Parliament Committee recommendations, the new amendments to the BOU Act were forwarded to the Minister of Finance for submission to Cabinet in November 2021 and have been submitted to Cabinet in January 2022

[1] According to the Bank of Uganda Act, use of advances to the Government is limited to temporary deficiencies of recurrent revenue, and is capped at 18 percent of current year's revenue during any fiscal year. The Public Finance Management (Amendment) Act 2015 limits advances to 10 percent of last year's revenue and requires loans raised for treasury operations to be repaid within the financial year.

(end-December 2021 SB). Amendments proposed include dynamic recapitalization, strengthen safeguards for institutional autonomy, clarify limits for advances to the government, and strengthen the BOU's governance and transparency framework. Adoption by Parliament is planned by September 2022 (new SB).

34. While the shilling has remained broadly stable, it is expected to depreciate gradually to the equilibrium level. Despite the observed trend appreciation of the shilling, our foreign exchange interventions are intended to smoothen out excess volatility. We will also continue to allow exchange rate flexibility to contribute to the correction of external imbalances and facilitate adjustment to shocks. This will help preserve adequate foreign exchange buffers, particularly as non-resident holdings of government bonds constitute a quarter of our international reserves and a sudden reversal in these portfolio flows could lead to a drawdown in reserves. A review of the bank's Foreign Exchange Reserves Management Policy will commence in Q1 2022 with a view to ensuring that best international practices are observed. The BOU's Foreign Exchange Reserves Management Policy Committee recently approved a revised Strategic Asset Allocation to provide an optimal asset allocation mix across different foreign reserve asset classes.

Financial Sector Policies

35. Strengthening capital buffers remains a key priority. The implementation of a systemic risk buffer for Domestic Systemically Important Banks (DSIBs), capital conservation buffer (which has just been calibrated) and leverage ratio, will take effect on January 1, 2022, while the counter-cyclical buffer framework was approved by the Financial Stability Committee of the Board on November 30, 2021, and ratified by the Board on December 22, 2021. Plans are underway to increase the minimum paid up capital for SFIs and a Statutory Instrument to this effect is expected to be gazetted by June 2022, including a provision that will give SFIs up to June 2024 to meet the new minimum capital requirements. The increase of capital requirements is needed in part because IFRS9 implementation also requires banks to hold higher loan loss provisions right from the time of loan origination given the outlook of an uncertain economic recovery that is expected to lead to increased credit losses. We are currently reviewing banks' internal capital adequacy assessment process (ICAAP), which were prepared by October 2021 in line with Basel II guidelines, with a view to verify the capital adequacy of Supervised Financial Institutions with respect to existing and emerging risks for the next 12 months ahead. In these exceptional times, we also continue our policy of strengthening capital buffers by restricting dividend distribution.

36. We continue to advance on supervisory and governance reforms that address weaknesses that manifested themselves when Crane Bank failed. Priorities include:

- **Adopting new governance guidelines**. With the help from IMF's long-term expert on supervision, BOU has reviewed the existing governance regulation and guidelines issued in 2005 and related directives since then. A new and updated guidance on governance is expected to come into force in March 2022. In line with international best practices, this new guidance outlines the corporate governance principles and compliance steps that all SFIs must comply with, emphasizes transparency and integrity to ensure good corporate governance, and issues guidelines to the industry including those related to holding company and subsidiary corporate structures. We expect to issue implementing regulations by September 2022 that will, inter alia, define fit and proper test criteria for owners, directors and senior management (new SB) from a risk-based perspective.

- **Moving towards continuous risk-based supervision,** with a specific risk-based matrix that is systematically updated. Offsite analytics have been improved by the adoption of an enhanced analytical framework that was developed with IMF technical assistance. The risk-based matrix and risk-based manual are undergoing internal approvals and trial run, with implementation scheduled for June 2022. To further improve soundness of the financial sector, we plan on integrating Uganda Development Bank under BOU's supervision.

- **Operationalizing the new Resolution Policy Framework** approved in June 2021 by the Board. BOU Management has finalized the Resolution Manual detailing processes for pre- and post-intervention and is in the process of operationalizing the Resolution Unit, in line with the proposed bank-wide restructuring that is expected to be completed by June 2022.

- **Amending the Financial Institutions Act.** All proposed amendments—including expanding the role and mandate of the deposit protection scheme—will be sent for legal drafting in January 2022 and are expected to be adopted in June 2022.

37. Bank oversight will continue to be strengthened. With credit relief measures expiring in September 2021 (except for the education and hospitality sectors, which were extended by one more year), risks to the banking sector are likely to rise, especially those arising from NPLs. In order to manage potential liquidity risks during the pandemic, the BOU continues to maintain the COVID-19 Liquidity Assistance Program (CLAP) and has finalized the design of the Emergency Liquidity Assistance (ELA). The latter will become effective by March 2022 and is aimed at addressing potential systemic/idiosyncratic liquidity stress. We are further strengthening banking system resilience against these risks by:

- **Encouraging banks to proactively increase provisioning,** with SFIs' provisions rising by 17.7 percent over the past year. We remain committed to ensuring that loan classification rules are not relaxed except for those measures already in place, and that we continue to ensure and maintain strict adherence to our prudential standards.

- **Continuing to strengthen our stress testing capabilities**, with bottom-up stress testing—whose framework and roadmap were approved by the Financial Stability Committee in August 2021 —progressing well with stress test scenarios being shared with banks in December 2021, and stress tests involving DSIBs expected to be completed by April 2022. We will augment the stress testing framework by adding a fully-fledged macro financial scenario—which will include multiple shocks to the economy and IFRS9 implementation. Such scenarios will be applied to all banks through regulatory stress tests by BOU by September 2022.

- **Closely scrutinizing corporate and households' balance sheets** to gauge the extent of credit and concentration risks faced by the financial system and evaluate foreign exchange risks. Going forward, BOU will seek to review and strengthen the systemic risk surveillance framework by utilizing dashboard indicators that cover financial markets, financial institutions, payment systems and real economy, and building various indices including resilience index, banking pressure index, stress index, and vulnerability index.

F. Structural Reforms

38. Our structural reform agenda focuses on generating higher and more inclusive growth by facilitating private sector activity and enhancing human capital development. Reversing the decline in private investment seen since the global financial crisis is a priority under our NDPIII. We will continue to pursue governance reforms, strive to reduce the cost of doing business, and foster financial inclusion to unlock private sector activity.

Governance

39. The government remains steadfast in its commitment to strengthen governance, which is a critical element to foster inclusive economic growth. We have fully operationalized the mechanism for collection and publication of beneficial ownership information of companies awarded COVID-19 procurement contracts (prior action and IMF's RCF program commitment). Building on this reform, we are expanding the collection of beneficial ownership information to all public procurement contracts, a significant reform to ensure effective transparency, anti-fraud and anti-corruption safeguards in procurement. In this regard, we have benefitted from ongoing IMF technical assistance to help design a system that can be used by our Budget Monitoring and Accountability Unit to track and report COVID-19-related expenditures irrespective of the source of financing (end-August SB).

40. Full audit of COVID-19 spending will ensure that funds were spent for intended purposes. After having completed the audit for FY 19/20 and the first three quarters of FY 20/21 last June, we have now completed the full year audit of FY 20/21, which was submitted to Parliament in early January and published on February 15, 2022 (Prior action). The audit has identified some shortcomings regarding the use of emergency procedures and on intended purpose. We plan to further study the findings of this recent audit and implement the recommendations noted by the Auditor General, which include reinforcing expenditure controls, including emergency procurement procedures and clearly communicating destination of funds to votes ahead of the cash releases to allow better tracking of outputs against intended objectives. We plan to issue a Treasury Memorandum that explains how weaknesses raised by the FY 20/21 audit of COVID-19 spending will be addressed (SB June 2022).

41. Strengthening accountability and transparency of high-level officials—a key commitment under the NDPIII—will require improving the asset declaration (AD) regime. We recently filled the vacancies of the office of the Inspector General of Government (IGG) and deputies and operationalized the Leadership Code Tribunal, which paved the way for sanctioning leaders that breach the Leadership Code. We will monitor implementation of the newly amended Leadership Code Act, including by publishing statistics on the requests for AD granted/rejected and on enforcement and adjudication of breaches. The IGG will amend the AD regulations and forms to lower the barriers to public access to ADs, clarify the requirement to declare the assets of spouses, children and assets owned beneficially, and strengthen the liability for the AD requirement breaches (SB, March 2022). We will also continue to work during the IMF-supported program on addressing remaining weaknesses in the asset declaration regime to bring it more in line with international best practices. We intend to leverage the asset declaration regime to intensify scrutiny of high-level officials' wealth and to detect and investigate corruption offences, including illicit enrichment.

42. We are working to enhance the effectiveness of the AML/CFT framework and to implement the "grey list" action plan with the FATF fully and promptly. We have adopted a National AML/CFT Strategy to address the AML/CFT deficiencies identified in the action plan with FATF and will accelerate its implementation. We amended the AML/CFT regulations to apply enhanced due diligence measures, including source of wealth and funds checks, to all domestic politically exposed persons, their family members, and close associates (prior action)**.** The BOU will issue guidance on the implementation of these measures. The following priority actions will be taken:

- **Establishing a registry of beneficial ownership.** We are working on the amendments to the Companies Act to prevent abuse of legal entities for money laundering to ensure a high degree of corporate transparency and timely access to accurate beneficial ownership information (June 2022 SB).

- **Strengthening the AML/CFT supervisory capacity at the BOU** to reduce the financial integrity risks facing the financial sector and better align Uganda's practices with international standards. While waiting for the creation of a separate AML/CFT unit, the BOU has started thematic inspections with dedicated staff on AML issues. With IMF technical assistance, the BOU will develop and implement a risk-based approach to financial sector AML/CFT supervision, including conducting a sectoral risk assessment, adopting tools for offsite monitoring, updating the inspection manual, and introducing a dedicated AML/CFT supervisory process (October 2022, SB).

43. We are committed to tackling corruption, prioritizing implementation and enforcement of an anti-corruption legal framework. We will focus on safeguarding anti-corruption bodies from undue influence and external interference as well as strengthening their capacity. We will also develop by December 2022 guidelines on the voluntary settlement of anti-corruption investigations for all relevant law enforcement agencies, outlining the cases that cannot be settled voluntarily at the stage of investigation and should be passed to the judiciary. We will promote integrity and transparency in the judiciary and will introduce comprehensive electronic case management tools in all courts.

44. Uganda has recently joined the Extractive Industries Transparency Initiative (EITI). As part of our commitments to the EITI, we stand ready to disclose contracts and licenses for oil and gas production and beneficial owners of corporate entities that hold legal interest. The first EITI report containing the relevant disclosures will be finalized and submitted in 2022.

Reducing the Cost of Doing Business

45. The government will accelerate its efforts to reduce legal and administrative impediments to doing business once the impact of the pandemic eases. The government has also recently worked to unite all permitting and registration requirements for new businesses in a one-stop shop, which can be accessed physically and online. In addition to these initiatives, the following envisaged actions should relax constraints on private sector initiative and growth, consistent with our priorities under the NDPIII: (i) addressing non-financial factors (power, transport, ICT) leading to high costs of doing business; (ii) strengthening the system of SME incubation centers (where education and help is offered to entrepreneurs who want to start a business) to support growth of SMEs in strategic areas; (iii) improving land administration, including by extending the coverage of the immovable property registry; (iv) rationalizing and harmonizing standards, institutions, and policies at the local and regional level; and (v) further streamlining bureaucratic red tape, reducing duplications and speeding up clearances for business operations.

46. Our development plan recognizes that an open and transparent trade regime is key to fostering dynamic economic growth. We have been investing in transport infrastructure (Standard Gauge Railway and roads) to support trade links with neighboring countries. The implementation of Uganda's commitments to the African Continental Free Trade Area (AfCFTA) will be important and will require finding solutions to deal with the challenge of non-tariff barriers in all member countries and harmonizing standards with our trading partners. We will make sure measures introduced to protect strategic industries during COVID-19—such as basic manufactures, food processing and pharmaceuticals—are time-bound, which will be necessary to better support a trade regime that promotes dynamic and inclusive growth consistent with the WTO, EAC, COMESA, and AfCFTA provisions for international trade.

Fostering Financial Inclusion

47. Implementation of the National Financial Inclusion Strategy is ongoing and further progress is envisaged under the program. Mobile money users and regulated accounts are on the rise, supported by a rising number of mobile money agents and extensive awareness campaigns on the use of e-payments during the pandemic. In addition, the number of registered users has risen to 31 million in December 2021, up from 27 million in 2019. Such progress—spurred further by the COVID-19 pandemics—will benefit from our ongoing update of our financial literacy strategy, which will help expand our delivery channels to improve access to finance. The current national financial inclusion strategy will expire in September 2022, and we are in the initial stages of developing a new one that will take effect from October 2022. In addition to promoting digital financial literacy and improving internet connectivity in the countryside, key priorities under our strategy include:

- **Strengthening regulations.** After the passing of the National Payment System (NPS) Act in August 2020, three regulations were gazetted on March 5, 2021, namely, the NPS Regulations, NPS Sandbox Regulations and NPS Agent Regulations. Thirteen (13) institutions had received Payment Service Provider (PSP) / Payment System Operator (PSO) Licences by December 31, 2021. One entity successfully tested Quick Response Technology under the Regulatory Sandbox and was licensed as a PSP/PSO. Twenty other applications for licenses are under evaluation.

- **Enhancing SME financing,** by establishing the Small Businesses Recovery Fund to follow the model of the Agriculture Credit Facility-with seed capital of Ush 100 billion from Government-to encourage SFIs (commercial banks, credit institutions& Micro Deposit Taking institutions) to extend credit to the small and medium enterprises whose businesses were affected by COVID-19.

- **Modernizing the financial infrastructure** by improving banks' data sharing infrastructure for credit and collateral through two key priorities: (i) allowing financial institutions to start accepting movable collateral for lending, which is now possible as the Uganda Registration Services Bureau has put in place the requisite regulations; and (ii) submitting the draft amendments to the Credit Reference Bureau to the MoFPED for no objection, with regulations expected to be gazetted by March 2022, with the aim to expand coverage of who can submit data to all providers of credit in the economy and linking credit information to the national identity number of the borrower and national ID database (new SB).

- **Promoting microfinance.** BOU under the guidance of the Cabinet Secretariat, completed the Regulatory Impact Assessment for the Amendments to the Microfinance Deposit Taking Institutions Act, 2003 in June 2021 and submitted the report to MoFPED. As a result, the Microfinance Deposit Taking Institutions (Amendment) Bill is expected to be tabled before Parliament in 2022.

- **Protecting against cyber risks** remains important now that Uganda is moving ahead with digitalization of its economy and greater use of e-financial services. We will continue to assess the robustness of banks' business continuity plans and cyber security measures through adherence to new risk management policies and by auditing the institutions' information and communication technology infrastructure, and regularly conducting vulnerability and penetration tests on their systems and network devices.

Climate Change and Adaptation Policies

48. We are committed to enhancing the economy's resilience to climate change. Uganda is prone to natural disasters that climate change is making more frequent and impactful. Our Ministry of Water and Environment estimates that climate change damage in the agriculture, water, infrastructure, and energy sectors could collectively amount to US$273-437 billion (2.8-4.5 percent of cumulative prospected GDP) between 2010 and 2050. For example, in the Karamoja region intense floods are followed by prolonged periods of drought. Our main priority areas include:

- **Strengthening our water catchment ability**. While climate finance, including donor grants, is available in theory for water catchment ability and wetlands preservation, it is very difficult to obtain in practice due to cumbersome application processes and very high standards for developing bankable projects. We are committed to seeking technical assistance from multilateral organizations to increase our capacity in this area.

- **Increase forest coverage from 14 percent to 21 percent by 2030**. The COVID-19 pandemic diverted resources to tackle the health emergency and our Ministry of Water and Environment suffered a budget cut of 40 percent, not only jeopardizing our ability to undertake new projects, but also our ability to enforce regulations and maintain the tree planting projects that had been completed. Going forward, as the economy recovers, we are committed to allocating adequate resources to combat deforestation.

G. Other Program Modalities

49. We are committed to implementing the key policy requirements of the Fund's safeguards assessment. The BOU Act principles that have been submitted to Cabinet addresses many of the concerns raised on autonomy, including by clarifying safeguards for the provision of credit to the government. The risk management framework was revised to ensure that the risk and compliance department carries out an independent review of the BOU's risk assessments and action plans. Reporting and control of currency operations continue to be strengthened with continuous review of periodic currency reports by the Board in effect. Work is also underway to review and approve the currency masterplan and a market study has been initiated to carry out currency costs analysis

50. We are continuing to strengthen our statistics, which are essential for the design of appropriate policies. While data provision is broadly adequate for surveillance and program monitoring, the government will continue to support UBOS in fulfilling its missions, and we count on continued technical and financial assistance from our partners in strengthening of the timeliness and accuracy of national accounts and Government Finance Statistics, as part of a broader goal in migrating from the Enhanced General Data Dissemination System to the Special Data Dissemination Standard. Developing institutional sector accounts and higher frequency GDP indicators alongside the rebasing of CPI, PPI and IPI remains a priority. UBOS will also continue implementing its High Frequency Phone Survey to monitor the impact of COVID-19, and the Uganda National Household Survey which are an important source of socioeconomic data to monitor the success of government policies.

51. The program's semi-annual quantitative performance criteria and structural benchmarks are listed in Tables 1, 2a, 2b and 2c. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding. The second and third reviews are scheduled to be completed on or after June 28, 2022, and December 28, 2022, respectively based on test dates for periodic performance criteria of end-March 2022, and September 2022, respectively

Table 1. Uganda: Quantitative Performance Criteria

	2021	2021												2022					
		End-June IT				End-Sept QPC				End-Dec IT				End-Mar QPC		End-Jun IT			
	End Mar	ECF Target	Adj. target	Act.	Status	ECF Target	Adj. target	Act.	Status	ECF Target	Adj. target	Act.	Status	ECF Target	Revised Target	ECF Target	Revised Target	End-Sept QPC	End-Dec IT
Quantitative performance criteria																			
Fiscal targets																			
Primary budget balance of the central government (- = deficit; floor, in billions of USh) 1/	-6,490	-10,532	-10,754	-9,296	Met	-2,093	-1,803	-768	Met	-3,327	-2,075	-1,002	Met	-4,247	-5,047	-5,453	-6,872	-910	-1,356
Monetary targets																			
Net claims on the government by the central bank (ceiling) 1/	180	-1,415		-12	Not met	2,200		461	Met	1,000		152	Met	300	300	0	580	2,458	1,639
Target for international reserves																			
Stock of net international reserves (floor, in millions of US$) 2/	3,099	3,028	2,861	3,372	Met	3,060	3,549	3,637	Met	2,885	4,051	3,547	Not met	2,917	3,432	2,797	3,125	3,455	3,308
Continuous PCs																			
Stock of external payment arrears incurred or guaranteed by the public sector (ceiling)	0	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
PV of newly contracted external public and publicly guaranteed debt (ceiling, millions of US$) 3/		867		643	Met	1,286		530	Met	1,286		539	Met	1,286	1,818	1,286	1,818	2,748	2,748
Monetary policy consultation clause																			
Outer band (upper limit)		8				8				8				8	8	8	8	8	8
Inner band (upper limit)		7				7				7				7	7	7	7	7	7
Core inflation target 4/	5	5		3.5	Met	5		3.1	Met	5		2.8	Met	5	5	5	5	5	5
Inner band (lower limit)		3				3				3				3	3	3	3	3	3
Outer band (lower limit)		2				2				2				2	2	2	2	2	2
Indicative targets																			
Support to vulnerable households (floor, billions of USh) 1/						60		113	Met	117		188	Met	199	220	292	292	26	77
Social spending (floor, billions of USh) 1/ 5/	3,509	5,216		5,210	Not met	1,466		1,496	Met	2,986		3,030	Met	4,391	4,391	5,895	6,303	1,463	2,963
Tax revenues (floor, in billions of USh) 1/	13,305	17,873		18,337	Met	4,615		4,255	Not met	10,364		9,661	Not met	15,452	14,653	20,837	20,305	5,121	11,125
Repayment of outstanding domestic arrears (floor, in billions of USh) 1/	668	805		794	Not met	100		270	Met	200		449	Met	300	300	400	603	100	200

Note: The September 2021 and the March 2022 QPC targets are set for the first and the second review, respectively.

1/ Targets are cumulative flows (i) from July 1, 2020 to end-June 2021; (ii) from July 1, 2021 to end-September, end-December 2021, end-March 2022 and end-June 2022; and (iii) from July 1, 2022 to end-September 2022, and end-December, 2022.
2/ The NIR excludes central bank short-term liabilities, and is assessed at program exchange rate. The impact of the SDR allocation, assumed to be fully saved, is reflected in the target.
3/ Targets are cumulative flows (i) from program approval to end-June 2021; (ii) from July 1, 2021 to end-September, end-December 2021, end-March 2022 and end-June 2022; and (iii) from July 1, 2022 to end-September 2022, and end-December 2022.
4/ Core inflation excludes energy, fuel, and utilities and food crops. Annual percentage change, twelve-month period average core inflation.
5/ Social spending includes spending on education, health and social development (excluding external financing).

Table 2a. Uganda: Prior Actions for First Review			
Measures	**Rationale**	**Initial deadline**	**Status**
Finalize the service level agreement (SLA) between MoFPED and BOU regularizing availability of funds for debt servicing and introducing safeguards in credit provision	Enhance BOU governance	July 2021 SB/Prior Action	PA Met. An SLA and addendum were signed clarifying the repayment plan for outstanding advances and to define advances to include debt provision. SLA signed in January 2022 and addendum signed on February 18, 2022.
Specify expenditure and revenue measures put in place to reach the FY 21/22 fiscal target while preserving priority social spending, in consultation with Fund staff.	Fiscal transparency and revenue collection	Prior Action	PA Met.
Publish the quarterly report on unpaid invoices	Strengthen budget processes	November 2021 SB/Prior Action	PA Met. Quarterly reports are prepared. Publication done on February 15, 2022, by MoFPED (link)
Adoption through the Financial Intelligence Authority (and Ministry of Finance) of a regulation that requires financial institutions to identify and apply enhanced due diligence measures for domestic PEPs.	Strengthening the AML/CFT regime	September 2021 SB/Prior Action	PA Met on February 15, 2022.
Publication of beneficial ownership (BO) of companies awarded COVID-19-related procurement contracts	Strengthen governance and reduce vulnerability to corruption	Prior Action	PA Met. Circular on BO sent to all agencies, form updated to collect BO information, and all existing (unsigned) procurement contracts and new ones (including non-COVID-19) are to use the form. A report listing procurement projects and BO information was published on February 15, 2022 (link).
Publish the special COVID-19 expenditure audit for FY 20/21	Strengthen fiscal transparency	Prior Action	PA Met. Audit prepared in January 2022 and published on February 15, 2022 (link).

Table 2b. Uganda: Original Structural Benchmarks – ECF Approval

Measures	Rationale	Deadline	Status	Comments
Finalize the service level agreement (SLA) between MOFPED and BOU regularizing availability of funds for debt servicing and introducing safeguards in credit provision	Enhance BOU governance	July 2021	Not Met	Completed in February 2022. An SLA and addendum were signed clarifying the repayment plan for outstanding advances and to define advances to include debt provision. SLA signed in January 2022 and addendum signed on February 18, 2022.
Adopt a framework for tracking Covid-19 spending regardless of source of financing, including parastatals and other State-owned enterprises (e.g. UDB), and assign responsibility for tracking to MoFPED's Budget Monitoring and Accountability Unit (BMAU) under the guidance of the Economic Response Unit (ERU).	Improve Covid-19 spending transparency	August 2021	Met	Framework shared with staff.
Publish project selection criteria and a pipeline of projects that are ready for inclusion in the annual budget	Efficiency of public investment management	September 2021	Not Met	Completed in January 2022. (link).
Prepare a unified registry of all social assistance programs	Targeting of social assistance programs	September 2021	Not Met	Reset to June 2022 to accommodate IT difficulties and give time to resolve data privacy issues.
Adoption through the Financial Intelligence Authority (and Ministry of Finance) of a regulation that requires financial institutions to identify and apply enhanced due diligence measures for domestic PEPs.	Strengthening the AML/CFT regime	September 2021	Not Met	Completed on February 15, 2022.
Adopt a tax expenditure framework and publish the annual tax expenditure statement.	Fiscal transparency and revenue collection	October 2021	Not Met	Completed in January 2022 (link).
Establishment of legal and regulatory mechanisms for timely access to accurate basic and beneficial ownership information for legal entities.	Strengthen governance and reduce vulnerability to corruption	November 2021	Not Met	Reset to June 2022 to accommodate legislative timetable.
Publish a Regulation introducing a strict sanction regime for officers responsible for unauthorized spending commitments, with clear personal penalties	Strengthen Expenditure commitment controls	November 2021	Not Met	Reset to June 2022 to allow for the legislative timetable and work on the PFM Act regulations.
Publish the quarterly report on unpaid invoices	Strengthen budget processes	November 2021	Not Met	Quarterly reports are prepared. Converted to prior action for first review. Publication done by February 15, 2022 (link)
Submit to Cabinet the amendments to the BoU Act to strengthen governance and autonomy, including for the dynamic recapitalization of the BoU, enhancements of the ELA and the resolution powers of the BoU	Enhance BoU governance	December 2021	Not Met	Completed in January 2022. Principles shared with Cabinet. Approval expected in March
Prepare and publish a medium-term fiscal framework, which is aligned with the Government Finance Statistics Manual of 2014 (GFSM 2014) in budget documents	Fiscal Sustainability and enhancing fiscal transparency	May 2022		In Progress

Table 2c. Uganda: New Structural Benchmarks

Measures	Rationale	Deadline	Status	Comments
Adoption of IGG regulations to lower the barriers to AD access and to enforce the requirement to declare the assets of spouses, children and owned beneficially.	Strengthen governance and reduce vulnerability to corruption	March 2022		
Prepare a unified registry of all social assistance programs	Targeting of social assistance programs	June 2022		Reset from September 2021 to accommodate IT difficulties and give time to resolve data privacy issues.
Establishment of legal and regulatory mechanisms for timely access to accurate basic and beneficial ownership information for legal entities.	Strengthen governance and reduce vulnerability to corruption	June 2022		Reset from November 2021 to accommodate legislative timetable.
Publish a Regulation introducing a strict sanction regime for officers responsible for unauthorized spending commitments, with clear personal penalties	Strengthen Expenditure commitment controls	June 2022		Reset from November 2021 to allow for the legislative timetable and work on the PFM Act regulations.
Issue treasury memoranda that explain how weaknesses raised by the FY 20/21 audit will be addressed	Strengthen fiscal transparency	June 2022		
Adopt a tax exemption rationalization plan applying criteria defined in the tax expenditure framework that would identify at least 0.1 percent of GDP in savings in FY 22/23 and 0.2 percent in subsequent years.	Revenue mobilization through a wider base	June 2022		
Adoption by Parliament of the Charter for Fiscal Responsibility, which sets a floor for the overall balance and sets a maximum level of the annual transfer from the Petroleum Fund to the Consolidated Fund.	Strengthen fiscal transparency for oil revenue management	July 2022		
Expand Credit Bureau Coverage by adopting amendments to the credit reference bureau	Strengthen financial inclusion	August 2022		
Parliamentary adoption of the BoU Act amendments to strengthen governance and autonomy, including for the dynamic recapitalization of the BoU, enhancements of the ELA, and the resolution powers of the BoU.	Enhance BoU governance	September 2022		
Issue implementing Regulations by September 2022 that will, inter alia, define proper fit and test criteria for bank shareholders	Enhance BoU governance	September 2022		
Development and implementation of tools for risk-based AML/CFT supervision of the financial sector	Strengthen governance and financial sector stability	October 2022		

Table 3. Use of SDR	
	Millions of US$
Total	**250**
Health	**54**
o/w: Supply of ARVs	13
o/w: Supply of essential medicines, and health supplies	11
o/w: Inpatient services	7
Education and sports	**169**
o/w: Allowances for Government-sponsored students, teaching, training & assessment of students, research and innovation, community outreach services and university operations	44
o/w: Catering for education capitation for UPE, USE, tertiary institutions, inspection and SOPs (including KCCA)	32
o/w: Assessment of examinations for candidates that will sit for UCE and UACE after the reopening of institutions	16
o/w: Operational expenses, including inspection of all education institutions, monitoring, supervision, rent and staff facilitation	14
o/w: Reconstruction of the main building and completion of lecture facilities at law school and the university perimenter wall at Makerere University	9
o/w: Completion of the examination storage facility in Kyambogo, modification of field examination containers, completion of the purchase of the specialized machinery (web-offset), digitization of records and scripts	7
o/w: Development of secondary, including rehabilitation of traditional schools	6
o/w: Students' Loan Scheme	6
Water and sanitation	**27**
o/w: Construction of a mix of 17 medium and large solar powered systems in subcounties with the lowest safe water coverage. Payment of retentions for Nyarwodo GFS, Lirima GFS	6

Attachment II. Technical Memorandum of Understanding

A. Introduction

1. This memorandum defines the quarterly performance criteria and indicative targets described in the Memorandum of Economic and Financial Policies (MEFP) for the financial program supported by the IMF Three-Year Extended Credit Facility (ECF) over the period of June 30, 2021—June 30, 2024; and sets forth the reporting requirements under the instrument. The stock of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the cross-exchange rate referred to in Text Table 1 below for the various currencies, and then converted into Uganda shillings using the program U.S. dollar-Uganda shilling exchange rate for end-December 2021, unless otherwise indicated in the text.

Text Table 1. Uganda: Program Exchange Rate (end-December 2021)[1/]

US dollar (US$)	1.0000
Australian Dollar/US$	1.3774
Canadian Dollar/US$	1.2777
Euro/US$	0.8835
British pound/US$	0.7407
US$/Japanese yen	0.0087
US$/Rwandan franc	0.0010
SDR/US$	0.7145

1/ For the currencies not listed in this table, the cross-exchange rates to the U.S. dollar at end-December 2021 will be applied.

B. Floor on Primary Budget Balance of the Central Government[1]

2. The quantitative performance criterion (QPC) on the floor on the primary budget balance is defined as the overall budget balance of the central government excluding net interest payments on public debt. The overall budget balance is defined from below the line as the sum of:

a) Net external financing (NEF), defined as the sum of the difference between disbursements and amortization of any loans (including budget support loans and project loans, both concessional and non-concessional), international-bonds, and any other forms of liabilities by the central

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

government to nonresidents, excluding nonresidents' holdings of domestically-issued government securities (which are covered under NDF).

b) Net domestic financing (NDF), defined on a cash basis as the sum of:

3. The change in net claims on the central government by the banking system, defined as the difference between claims on the central government and liabilities to the central government, of the central bank and other depository corporations.

4. The change in net claims on the central government of domestic nonbank institutions and households, including treasury bills, bonds or other government securities held by the nonbank public.

5. Net proceeds from sales of non-financial assets including privatization receipts (data to be provided by the authorities—see below).

6. NDF will be calculated based on data from balance sheets of the monetary authority and other depository corporations and government liabilities to nonbank institutions and households as per the Depository Corporations Survey (DCS).

7. Changes in NEF will be measured using external financing (net) provided in the monthly government finance statistics. These data, in turn, will be based on the reconciled donor disbursement figures obtained by the central bank and by Ministry of Finance, Planning, and Economic Development (MoFPED) through the Debt Management and Financial Analysis System (DMFAS) and Aid Management System (AMS).

8. The primary balance target will be a floor on the cumulative flows from July 1, 2020 to June 30, 2021, and from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022. The floors on primary budget balance for end-September 2021 and end-March 2022 will be quantitative performance criteria under the ECF program; while the floors for end-June, 2021, end-December, 2021 and end-June 2022 will be indicative targets.

C. Ceiling on Net Claims on the Government by the Central Bank

Background on Temporary Advances from the Bank of Uganda to the Central Government

9. The Government of Uganda (GoU) may receive temporary advances from the Bank of Uganda (BoU) to cover temporary deficiencies of recurrent revenue of up to 10 percent of recurrent revenues over the fiscal year, according to the Amendments to the 2015 PFM Act. The Act also requires full repayment within the respective fiscal year.

10. The GoU has thus committed to repay the total outstanding advance during the remainder of FY20/21 with no further advances to be requested.

11. Within the remit sets out by the 2015 PFM Act, the GoU expects to temporarily draw on advances from the BoU in the first quarter of FY21/22 and to fully repay the advances over the subsequent three quarters as liquidity condition improves.

Purpose, Definition, and Measurement

12. The purpose of the quantitative performance criteria on the ceiling of net claims on the government by the central bank is to help define and monitor the balance of temporary advances and ensure their prompt repayment. This should help reduce the likelihood of a situation where the temporary advances are used in order to bypass issuances of treasury securities in the domestic financial market, resulting in monetization of fiscal deficits and potential inflationary pressures. It also acts as a monitoring mechanism for the GoU extended repayment schedule for the existing advances.

13. The net claims on the government by the BoU is defined as the difference between claims on central government and liabilities to central government, excluding deposits in administered funds (including the petroleum funds, agriculture credit facility and development finance scheme projects), project accounts (both donor and government funded) with the central bank and net recapitalization securities (recapitalization securities provided to the central bank less those used for monetary policy purposes).

14. The net claims on the government by the central bank will be calculated based on data from balance sheets of the monetary authorities as per the DCS as follows:

a) **Net claims on the government by the BOU** is defined as the difference between gross claims by BOU on central government and gross liabilities by BOU to the central government.

b) **Plus: Deposits in Administered Funds** This includes mainly the Agricultural Credit Facility. Gross deposits in administered funds should be used (i.e. Administered Funds (Total deposits held by BOU)). This component, being a liability on the central bank's balance sheet, should be added back in to the calculation in order to be excluded (hence "plus").

c) **Plus: Deposits in the Petroleum Fund**. The Petroleum Fund has two accounts: one in UGX and one in USD. Both accounts should be included as both constitute liabilities of the BOU to the central government. This component, being a liability on the central bank's balance sheet, should be added back in to the calculation in order to be excluded (hence "plus").

d) **Plus: Government Project Deposits**. These are donor project funds earmarked for specific projects and transferred to the BOU to administer. This component, being a liability on the central bank's balance sheet, should be added back in to the calculation in order to be excluded (hence "plus").

15. **Minus: Recapitalization Securities**. The securities used for monetary purposes (repos) are already netted out above, since they are included in both gross claims by BOU on central government and gross liabilities by BOU to the central government. Hence only recap securities should be subtracted.

D. Floor on Net International Reserves of the Bank of Uganda

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

17. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock from their original currency denomination at program exchange rates as set out in Table 1 above. The NIR limit for each of the test dates will be a floor on the NIR stock at the end of each test period. NIR floors for March 2021 and September 2021 will be quantitative performance criteria under the ECF; floors for June 2021 and December 2021 will be indicative targets.

E. Ceiling on External Arrears Incurred or Guaranteed by the Public Sector[2]

18. The definition of debt, for the purposes of the limit, is set out in point 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements (Executive Board Decision No. 6230-(79/140), as amended by Decision No. 15688-(14/107), effective June 30, 2015). It does not only apply to the debt as defined in point 8(a) of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received.[3] The definition of debt set forth in point 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements reads as follows:

19. For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future

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

[3] Contracting and guaranteeing is defined as approval by a resolution of Parliament as required in Section 36(5) and 39(1) of the Public Finance and Management Act, 2015.

(such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

20. Under the definition of debt set out in point 8(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

21. The ceiling on the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted or guaranteed by the public sector from their level at end-June 2021. External debt payment arrears consist of external debt service obligations (reported by the Statistics Department of the BoU, the Accountant General's office of the Ministry of Finance, Planning and Economic development) that have not been paid at the time they are due as specified in the contractual agreements but shall exclude arrears on obligations subject to rescheduling, disputed debt service obligations and the HIPC-related external arrears to Iraq and Nigeria. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external arrears it accumulates.

F. Ceiling on the Present Value of Newly Contracted External Public and Publicly Guaranteed Debt

Definition, Coverage

22. For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), effective June 30, 2015 (see above). The public sector comprises the central government, state government, local government, social security funds, the central bank, nonfinancial public enterprises and other official sector entities. The guarantee of a debt arises from any explicit legal or contractual obligation of the public sector to service a debt owed by a third-party debtor (involving payments in cash or in kind). A debt is considered contracted when all conditions for its entrance into effect have been met, including approval by the government. Contracting of credit lines with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

23. External debt is any debt contracted or guaranteed by the public sector on both concessional and non-concessional terms with non-residents, excluding nonresidents' holdings of domestically-issued government securities (which are covered under NDF).

Concessionality

24. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97).

25. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD SOFR is 0.04 percent and will remain fixed for the duration of the program. The spread of six-month Euro EURIBOR over six-month USD SOFR is -56 basis points. The spread of six-month JPY OIS over six-month USD SOFR is -8 basis points. The spread of six-month GBP SONIA over six-month USD SOFR is 1 basis point. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD SOFR is 15 basis points.[4] Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

26. A performance criterion (ceiling) applies to the present value of external debt, newly contracted or guaranteed by the public sector. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. The quantitative target does not apply to normal import-related commercial debt having a maturity of less than one year, rescheduling agreements, and IMF disbursements. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external loans it contracts or guarantees, stating the conditions of these loans.

G. Consultation Mechanism on Inflation

27. The quarterly consultation bands for the twelve-month average rate of consumer price inflation (as measured by the core consumer price index (CCPI) published by the Uganda Bureau of Statistics (UBOS) are specified in the QPC table. The consultation bands specify the range of admissible CCPI inflation. Observed CCPI inflation for end-March 2022 and end-September 2022 will

[4] The program reference rate and spreads are based on the average projected rate for the six-month USD SOFR over the following 10 years from the Fall 2020 World Economic Outlook (WEO).

be subject to the consultation mechanism, while the CCPI inflation for end-June 2022 and end-December 2022 will be indicative targets.

28. Should the observed average CCPI inflation for the test date linked to a ECF program review (i.e., end-March 2022 for the second review and end-September 2022 for the third review) fall outside the outer band as specified in the QPC table, the authorities will complete a consultation with the Executive Board of the Fund on their proposed policy response before requesting completion of the review under the program. The authorities will not be able to request completing a review under the ECF program if the average CCPI inflation has moved outside of the outer band as of the test date linked to such review, until the consultation with the Executive Board has taken place. In line with the accountability principles, the BoU will report to the public the reasons for any breach of the outer bands, and its policy response. In addition, the BoU will conduct discussions with the Fund staff when the observed average CCPI inflation falls outside the inner band, as specified for March 2022 and September 2022 in QPC table.

H. Direct Support Programs to Vulnerable Households

29. A floor on total social assistance spending to support vulnerable households will apply. The indicative target on direct support programs includes spending through the Northern Uganda Social Action Fund (NUSAF), the Senior Citizens Grant (SCG), the Urban Labor Intensive Public Works (LIPW), the Social Assistance Grants for Empowerment (SAGE) and the EMYOOGA Initiative. Compliance with the indicative floor for supporting vulnerable households will be verified on the basis of data on quarterly releases of social assistance spending for March and September, and actual for June and December, as published in quarterly budget execution reports.

I. Social Spending

30. A floor on total social spending will be set. It includes all spending in health, education, and social development (excluding external financing). Social spending will be monitored on the basis of the monthly government finance statistics.

J. Tax Revenues

31. A floor applies on tax revenue of central government measured cumulatively from the beginning of the fiscal year in July. For program monitoring purposes, tax revenue is defined as the sum of direct domestic taxes, indirect domestic taxes, and international trade taxes, as defined by the Government of Uganda's revenue classification.

K. Floor on Repayment of Outstanding Domestic Arrears (IT)

32. A floor applies to repayment of outstanding domestic arrears of the central government as an indicative target. The target will be a floor on the cumulative gross repayment from July 1, 2020 to June-30, 2021, and from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022, and June 30, 2022.

33. An unpaid bill is defined as any verified outstanding payment owed by any entity that forms part of the central government votes for the following: utilities, rent, employee costs, other recurrent, court awards, compensation, contributions to international organizations, development, taxes, and other deductions. Domestic arrears are the total stock of unpaid bills at the end of the year as reported in the annual audit report of the Auditor General.

L. Adjustors

34. The NIR and the primary balance targets are based on program assumptions regarding: 1, budget support; 2, recapitalization of the BoU; 3, external financing tied to projects; 4, DSSI relief and; 5, the proposed SDR allocation.

Adjustor Related to Budget Support

35. The Uganda shilling equivalent of projected budget support (grants and loans) on a cumulative basis from the beginning of the relevant quarter is presented under Schedule A. The floor on the stock of NIR of the BoU will be adjusted upward (downward) by the amount by which budget support, grants and loans exceeds (falls short of) the projected amounts. Any downward adjustment to the floor on the stock of NIR will be capped by 10 percent of the revised targeted amount set out in Schedule A. The floor on the primary budget balance of the central government will be adjusted upward (downward) by the amount by which budget support grants exceeds (falls short of) the projected amounts.

Text Table. Uganda. Schedule A: Budget Support 1/
(USh billions)

	2021						2022					
	End-Jun		End-Sept		End-Dec		End-Mar		End-Jun		End-Sep	End-Dec
	Target	Outturn	Target	Outturn	ECF target	Outturn	ECF target	Rev. target	ECF target	Rev. target	Target	
Budget support grants	627	75	0	0	0	91	52	91	77	91	0	30
Budget support loans	5,288	3,322	120	116	992	1,534	3,212	2,410	3,899	4,361	0	80

1/ Cumulative flows from July 1, 2020 to June 30, 2021; from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022; and from July 1, 2022 to September 30, 2022, and December 31, 2022.

Adjustor Related to Recapitalization of the Bank of Uganda

Text Table. Uganda. Schedule B: Recapitalization of the Bank of Uganda 1/
(USh billions)

	2021						2022					
	End-Jun		End-Sept		End-Dec		End-Mar		End-Jun		End-Sep	End-Dec
	Target	Outturn	Target	Outturn	ECF target	Rev. target	ECF target	Rev. target	ECF target	Rev. target	Target	
Recapitalization of BoU	482	482	0	0	0	0	0	0	0	0	0	0

1/ Cumulative flows from July 1, 2020 to June 30, 2021; from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022; and from July 1, 2022 to September 30, 2022, and December 31, 2022.

36. The floor on primary budget balance of the central government will be adjusted downward (upward) by the amount by which the recapitalization of the BoU exceeds (falls short of) the projected amounts as set out in Schedule B.

Adjustor Related to Externally Financed Projects

Text Table. Uganda. Schedule C: External Financing Tied to Projects 1/
(USh billions)

	2021						2022					
	End-Jun		End-Sept		End-Dec		End-Mar		End-Jun		End-Sep	End-Dec
	Target	Outturn	Target	Outturn	ECF target	Rev. target	ECF target	Rev. target	ECF target	Rev. target	Target	
Project loans	4,450	4,119	1,234	944	2,821	1,659	3,776	3,411	5,152	4,112	1,288	2,263

1/ Cumulative flows from July 1, 2020 to June 30, 2021; from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022; and from July 1, 2022 to September 30, 2022, and December 31, 2022.

37. The floor on primary budget balance of the central government will be adjusted upward (downward) by the amount by which (both concessional and non-concessional) external financing tied to projects falls short of (exceeds) the projected amounts as set out in Schedule C. Any downward adjustment will be capped by 10 percent of the amounts set out in Schedule C.

Adjustor Related to the DSSI Relief

38. The floor on the stock of NIR of the BoU will be adjusted upward (downward) by the amount by which the DSSI relief exceeds (falls short of) the projected amounts as set out in Schedule D.

Text Table. Uganda. Schedule D: DSSI Relief 1/
(US$ millions)

	2021						2022					
	End-Jun		End-Sept		End-Dec		End-Mar		End-Jun		End-Sep	End-Dec
	Target	Outturn	Target	Outturn	ECF target	Rev. target	ECF target	Rev. target	ECF target	Rev. target	Target	
DSSI relief	0	0	107	0	121	0	121	0	121	0	0	0

1/ Cumulative flows from July 1, 2020 to June 30, 2021; from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022; and from July 1, 2022 to September 30, 2022, and December 31, 2022.

Adjustor Related to Direct Support Programs to Vulnerable Households

39. The floor on spending under direct support programs to vulnerable households will be adjusted upward (downward) by the amount by which spending under NUSAF and SCG exceeds (falls short of) the projected amounts as set out in Schedule E.

Text Table. Uganda. Schedule E: Direct Support to Vulnerable Households Under NASUF, Urban LIPW and SCG 1/
(USh billions)

	2021						2022					
	End-Jun		End-Sept		End-Dec		End-Mar		End-Jun		End-Sep	End-Dec
	Target	Outturn	Target	Outturn	ECF target	Rev. target	ECF target	Rev. target	ECF target	Rev. target	Target	
Project grants			0		0		29	29	72	72		

1/ Cumulative flows from July 1, 2020 to June 30, 2021; from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022; and from July 1, 2022 to September 30, 2022, and December 31, 2022.

M. Monitoring and Reporting Requirements

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

Attachment Table 1. Uganda: Summary of Reporting Requirements

Reporting Institution	Report/Table	Submission Frequency	Submission Lag
I. Bank of Uganda	Operations in the foreign exchange market and the level of BoU's international reserves	Weekly	5 working days
	Private sector credit growth by shilling and forex, and excess reserves of commercial banks	Monthly	5 working days
	Disaggregated consumer price index	Monthly	2 weeks
	Balance sheet of the BoU, consolidated accounts of the commercial banks, and depository corporations' survey	Monthly	4 weeks
	Monthly balances of net foreign assets, net domestic assets, and base money of the BoU	Monthly	4 weeks
	Details on the government position at the central bank including deposits broken down by i) government project accounts (both donor and government funded), and ii) administered funds (including the petroleum funds, agriculture credit facility and development finance scheme projects). Detailed information about the recording of the recapitalization of the central bank, and government securities that are used for monetary purposes.	Monthly	4 weeks
	Monthly foreign exchange cash flow table of BoU.	Quarterly	4 weeks
	Summary of (i) monthly commodity and direction of trade statistics;	Quarterly	6 weeks

Attachment Table 1. Uganda: Summary of Reporting Requirements (continued)			
Reporting Institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks
	Summary table of preliminary program performance comparing actual outcome with adjusted program targets for (i) net claims on central government by the central bank; (ii) new nonconcessional external borrowing; and (iii) net international reserves.	Quarterly	4 weeks
	Currency composition of the BoU's international reserves at end of each quarter.	Quarterly	6 weeks
II. Ministry of Finance	Summary of central government accounts. Revenues shall be recorded on a cash basis, with a breakdown including infrastructure levy. Expenditures shall be recorded when checks are issued, except for domestic and external debt-service payments,[1] cash transfers to districts & missions abroad, and externally funded development expenditures. Expenditures on domestic interest will be recorded on an accrual basis and external debt service will be recorded on a commitment basis (i.e., when payment is due).	Monthly	4 weeks
	Summary of the stock of arrears (or unpaid bills) by government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Semi-annually	3 months
	Disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category.	Quarterly	6 weeks
	Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	Quarterly	6 weeks

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

Attachment Table 1. Uganda: Summary of Reporting Requirements (concluded)

Reporting Institution	Report/Table	Submission Frequency	Submission Lag
	Summary of contingent liabilities of the central government and the BoU. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Annual	6 weeks
	Provision of all government guarantees	Quarterly	6 weeks
	Detailed monthly central government account of disbursed budget support and project grants and loans (less change in the stock of project accounts held at the BoU and commercial banks), and external debt service due and paid.	Quarterly	4 weeks
	Privatization receipts	Quarterly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	Statement on new external loans contracted or guaranteed by the central government and the BoU during the period according to loan agreements. Parliament resolutions on any new loans.	Quarterly	6 weeks
	Statement of (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	12 weeks