

**Uganda: Report on Observance of Standards and Codes—  
Fiscal Transparency Module—Update**

This update to the Report on the Observance of Standards and Codes on Fiscal Transparency for **Uganda** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **January 24, 2003**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Uganda** or the Executive Board of the IMF.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to [publicationpolicy@imf.org](mailto:publicationpolicy@imf.org).

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
700 19th Street, N.W. • Washington, D.C. 20431  
Telephone: (202) 623 7430 • Telefax: (202) 623 7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) • Internet: <http://www.imf.org>

**International Monetary Fund  
Washington, D.C.**

INTERNATIONAL MONETARY FUND

UGANDA

**Update to the Report on the Observance of Standards and Codes (ROSC)  
Fiscal Transparency Module**

Prepared by the African Department on the Basis of Information  
Provided by the Ugandan Authorities

January 24, 2003

**I. INTRODUCTION**

1. The first ROSC for Uganda was issued in August 1999.<sup>1</sup> During the 2002 Article IV consultation mission, IMF staff reviewed developments in Uganda's observance of the fiscal transparency practices assessed in 1999, with a view to updating changes in current practices, reviewing progress in implementing the earlier ROSC's recommendations, and identifying developments relevant for Uganda's future observance of good fiscal transparency practices.

**II. DESCRIPTION OF PROGRESS AND RECENT DEVELOPMENTS**

2. Since the 1999 ROSC, Uganda has made significant progress in enhancing transparency practices in the fiscal area. Actions have been taken under each of the four areas underlying the fiscal transparency code:

- **Clarity of roles and responsibilities.** The Ugandan authorities have made a number of improvements. They have inter alia (i) divested public enterprises, thereby reducing the scope for conducting off-budget quasi-fiscal operations; (ii) compiled statistics of line ministries' revenue, bringing this revenue under the control of the Treasury; (iii) extended the budgeting framework to cover district and local government budget processes; and (iv) eliminated the possibility of government granting discretionary tax exemptions by modifying the income, customs, and value-added tax laws. Despite these improvements, a large number of recommendations contained in the original ROSC regarding broadening the coverage of the budget and including local governments in the fiscal management system have not been addressed.

---

<sup>1</sup> The "Experimental IMF Report on Observance of Standards and Codes: Uganda" is available at the IMF website: <http://www.imf.org/external/np/rosoc/rosoc.asp>. This report covered six areas: data dissemination, fiscal transparency, banking supervision, transparency of monetary policies, securities market regulation, and insurance market.

- **Public availability of information.** The Ugandan authorities have (i) produced annual, semiannual, and quarterly reports on the outturn of the central government, as well as monthly reports on the central government's revenue outturn now available on the government's website; and (ii) compiled and aggregated final annual accounts for local governments. However, recommendations to include statements on the use and estimates of the cost of government guarantees, tax expenditures, and quasi-fiscal activities in the budget documentation, and to report on consolidated government accounts remain relevant.
- **Open budget preparation, execution, and reporting.** The authorities have (i) increased the participation of legislature in fiscal management, particularly the budget, through the enactment of the 2001 Budget Act which allows the parliament to contribute to the budget during the preparation process; (ii) started piloting output-oriented budgeting for some of the major spending ministries, including education and water; (iii) introduced a commitment control system (CCS) for nonwage recurrent and development expenditures that has greatly reduced, although not eliminated, the accumulation of new domestic arrears in these areas; and (iv) reformed the central tender board and passed a new procurement law, which has shifted procurement to the ministerial level in an attempt to improve budget execution and value-for-money spending. Little progress, however, has been made on a number of recommendations in the original ROSC to improve the content of the budget document and the budget classification, strengthen the monitoring of local expenditures, reconcile accounting data with budget appropriations and bank accounts, and fully enforce safeguards for monitoring expenditures and controlling arrears.
- **Independent assurances of integrity.** Uganda has enhanced the technical capacity of the auditing functions of the government by increasing budget resources and hiring external technical experts. However, the effectiveness of the involved units is not regularly monitored, as recommended in the original ROSC.

3. **Since the completion of the 1999 ROSC, three issues have emerged that are critical for Uganda's observance of fiscal transparency practices.** First, the extensive use of supplementary appropriations is undermining the budget process as an instrument for effective expenditure planning. Second, the assessment of the accumulated stock of domestic arrears is problematic, with the stock of verified arrears frequently changing. Third, the central government contingent liabilities are not fully reported, and their total amount is unknown.

### III. IMF STAFF COMMENTARY

4. The authorities should be commended for addressing some of the critical areas where fiscal transparency was lacking in the 1999 fiscal ROSC. These include eliminating many sources of quasi-fiscal operations (through privatization), enforcing regulations needed to reduce new budget arrears, and discontinuing the practice of granting discretionary tax exemptions. However, a large number of the recommendations made in the 1999 ROSC on

fiscal transparency remain valid, particularly those in the area of budget execution and reporting, both at the central and the local government levels where progress has been extremely limited. Furthermore, three additional issues have emerged that can adversely affect the Uganda's ability to observe good fiscal transparency practices in the future, including the use of supplementary appropriations, the assessment of the stock of domestic arrears, and the level of the central government's contingent liabilities. First, the regular use of supplementary appropriations suggests that urgent attention be given to the enactment of a new public finance bill to legislatively regulate and limit the use of supplementary appropriations by the executive. Second, the problem of assessing the current stock of arrears requires tighter requirements for the presentation of an arrear and stricter enforcement in the arrears' verification process. Finally, the authorities should recognize that failure to monitor and control contingent liabilities can quickly escalate and threaten fiscal sustainability. To monitor the accumulation of contingent liabilities, an inventory should be completed to create a central database on contingent liabilities and the database should be regularly updated. A clear public policy on government guarantees should be developed that ideally rests the authority to grant a government guarantee solely with the Minister of Finance.