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June 15, 2007

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

May 17, 2007

LETTER OF INTENT

Kampala, Uganda
May 17, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

On behalf of the Government of Uganda, I would like to inform you of the progress we have made under our economic program backed by the International Monetary Fund's Policy Support Instrument (PSI) and transmit the attached Memorandum of Economic and Financial policies (MEFP), which sets out the objectives and policies that the Government intends to pursue in the short and medium term. The policies outlined in the MEFP are based on addressing Uganda's infrastructure needs in an environment of continued fiscal consolidation and implementation of the broader policy agenda as envisaged in the Poverty Eradication Action Plan.

All assessment criteria for the first review under the PSI were observed. The Government implemented vigorous measures to alleviate the electricity shortages, and macroeconomic performance and policies remained strong. Fiscal developments were broadly in line with the program objective of fiscal consolidation, and monetary policy targets were met.

The Government of Uganda believes that the policies set forth in the MEFP are adequate to achieve the objectives of our PSI program. Given our interest in macroeconomic stability, we stand ready to take additional measures as may be necessary to achieve needed objectives. Our PSI proposes assessment criteria for the performance target dates of end-June and end-December 2007 for the second and third reviews, which are expected to be completed by end-October 2007 and end-April 2008, respectively. We stand ready to work with the Fund and other development partners in the implementation of our program and will consult in advance should revisions be contemplated to the policies contained in the PSI.

The Government of Uganda authorizes the publication and distribution of this letter, its attachments, and all reports prepared by Fund staff regarding the current PSI review.

Sincerely yours,

/s/

Dr. Ezra Suruma
Minister of Finance, Planning, and Economic Development

UGANDA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

UPDATE

1. In this updated Memorandum of Economic and Financial Policies (MEFP), **the Government of Uganda remains committed to sustained economic growth and poverty reduction.** The strategy to achieve these goals is set out in the Poverty Eradication Action Plan (PEAP) and relies on prudent macroeconomic policies and structural changes. The Government and the International Monetary Fund (IMF) are cooperating on the economic program through a three-year Policy Support Instrument (PSI). This MEFP describes performance under the program through April 2007, specific policies and targets through the first half of 2007/08, and medium-term objectives.

I. Performance Under the PSI

2. **All assessment criteria have been met.** Fiscal performance for the first half of 2006/07 was in line with program projections, and, accordingly, the ceiling on net claims on government by the banking system was observed. Base money was within the program ceiling and the floor on the stock of net international reserves of the Bank of Uganda (BOU) was exceeded by a substantial margin. Poverty alleviation expenditure, an indicative target, was slightly below the program floor due to lags in expenditure processing.

II. Objectives and Policies Looking Forward

A. Fiscal Policy

3. **The outlook for the remainder of the fiscal year is in line with the Medium-Term Expenditure Framework (MTEF) and program objectives set out in the initial MEFP.** Spending on poverty reduction will be at intended levels. Government remains committed to meet the NCG target.

4. **Our budget for 2007/08 will be guided by our medium-term expenditure framework and our prudent approach to fiscal policy.** Accordingly, we will aim to continue reducing the central government deficit (excluding grants) so that the private sector can lead economic growth and poverty reduction. However, our electric power situation will slow the pace of fiscal consolidation for the next several years. In addition, our 2007/08 budget will increase infrastructure spending and put emphasis on Government of Uganda counterpart funding for donor financed infrastructure projects. The policy of annually increasing tax collections by 0.5 percent of GDP remains in place but, as in 2006/07, implementation in the near term could be adversely affected by the high cost of electric power and by the temporary excise tax refunds on fuel used for large commercial generators. In addition, we will continue to subsidize electricity produced by thermal generators until the Bujagali dam is completed. Our quantitative targets for end-December 2007 reflect these considerations and will be updated during the second PSI

review to reflect the budget approved by Parliament. Parliament's final approval is expected by September 2007.

5. **The Ministry of Finance has developed a comprehensive debt management strategy for Uganda.** The strategy ties together the concept of fiscal sustainability and the goals of reducing dependency on donor flows and eliminating domestic arrears. The strategy calls for (i) borrowing only on concessional terms and only for budget support, agriculture and essential infrastructure (electricity, transportation, and water) projects; (ii) streamlining debt management and finalizing regulations; and (iii) strict limits to the private sector on loan guarantees. Government will finalize the strategy paper and publish it.

6. **The Government will make every effort to avoid the accumulation of new arrears to domestic suppliers.** To this end, the Government will:

- Implement and enforce the arrears strategy that was recently adopted by Cabinet. The Ministry of Finance will also submit to Cabinet a paper restating the policy that requires that arrears accumulated since 2005/06 be paid as soon as possible. The paper will propose mechanisms of settling these arrears in 2007/08;

- Maintain strict budget discipline;

- Roll out the IFMS further to all agencies; and

- Continue to submit to Cabinet quarterly CCS reports prepared by the Treasury Inspectorate, including details of ministries' arrears.

7. **When finalizing our accounts for 2005/06, we uncovered overdue obligations that were mainly related to utilities, supplier credits, and international subscriptions.** These arrears will be cleared as quickly as possible, in line with our policy. To avoid new arrears in these areas, we will take the following steps:

- The Ministry of Foreign Affairs in conjunction with the Ministry of Finance, Planning and Economic Development will submit to Cabinet an updated list of international subscriptions and related host ministries to Cabinet for verification and approval. Further, the Ministry of Finance will advise all ministries that, starting with the 2007/08 financial year, subscription obligations will be met within their own budgets;

- The Ministry of Finance will republish in newspapers a reminder that Government will no longer honor supplier credits or other unofficial invoices for goods or services. Only local purchase orders (LPOs) from the IFMIS system will be paid; and

- Government will continue working with its water and electricity suppliers to install prepaid meters over the next two years. Hospitals will be exempted.

8. **The central government civilian pension payment system has been reviewed and found to be largely accurate**. Nevertheless, plans to rollout the Integrated Payroll and Pension System (IPPS) in several ministries in time for the 2008/09 financial year will continue. During the review, we discovered that in recent years, pension obligations were higher than budget provisions. To avoid the problem of accumulating pension arrears in the future, the government will ensure that pensions in 2007/08 are paid on time.

9. **The Government has reviewed investment incentives,** including those granted to enterprises in Export Processing Zones (EPZs) as implemented in neighboring countries. Attracting investment to Uganda is a key part of the value addition strategy to bring more employment opportunities to Ugandans. We plan to present to Parliament a new investment policy that will be implemented during the 2007/08 financial year. The policy has been designed in line with the following principles: (i) avoid a significant erosion of the tax base so that our objective of increasing the tax-to-GDP ratio is achieved; (ii) avoid granting enterprise-based discretionary tax preferences; (iii) implementation will take place as budgetary resources permit and taking into account the URA's capacity to monitor compliance. The plan is consistent with tax policies in our EAC partners and our intention to complete a code of conduct on investment incentives so that mutually damaging tax competition is avoided.

10. **The Government has taken steps to pay tax on its own procurement.** A special account has been set up in the BOU that will be used to make government tax payments to the URA. The new system has already begun to produce results, but it needs to be monitored carefully to ensure its effectiveness over time. Government will ensure that sufficient funds are allocated to this account and will address any new problems of government tax compliance as they arise.

11. **The Government will strengthen mechanisms to ensure value-for-money in the implementation of public projects by strengthening the monitoring and evaluation functions, as well as service delivery.** Past efforts in this area have proved difficult, and, consequently, the government will prepare a detailed plan to enhance the effectiveness of spending and service delivery in a few selected areas as demonstration of what can be achieved.

12. **The Government is embarking on public sector pay reform.** The Ministry of Public Service has produced a plan to revise public sector pay scales, to be implemented when resources permit. Higher pay for government scientists and researchers is also under review to retain them in Uganda. The Ministry of Public service is also reviewing public pensions, with due attention to the longer-term budgetary and financial market implications. As with pay reform, changes in the public pension system will depend on the availability of resources.

13. **The reform process in URA will continue and the URA will finalize its computerization program.** In the medium term, the URA will further increase revenue

collection, through improving taxpayer registration; centralization of data on custom, VAT, and income taxpayers and transactions; more frequent audits of tax compliance; identification of new taxpayers; and interconnectivity and sharing of information with countries in the region about incoming trade traffic.

14. **The effective implementation of the fiscal decentralization strategy (FDS) is intended to improve government services.** The Government is currently strengthening the public expenditure management systems at the subnational level, including IFMS implementation for local governments in accordance with the roll-out plan.

15. **We are currently considering ways to strengthen local government finances.** Abolition of the graduated tax, which was a key revenue source for local governments, has been compensated mainly by additional transfers from the central government. Some urban areas are collecting a local property tax to supplement central government transfers. The Government is looking at other tax options, but the scope for locally generated revenue in rural areas will remain limited until farmers are lifted out of subsistence agriculture.

B. Monetary and Financial Sector Policies

16. **We remain committed to keeping annual average underlying inflation below five percent through the reserve money targeting framework.** In 2006/07, this objective is unlikely to be achieved, largely because of (i) the necessary increases in electricity tariffs earlier in the year and (ii) a temporary jumps in sugar and diesel fuel prices. We see these developments as one-time supply shocks and not related to an inflationary pressure. In consequence, the BOU has maintained its targets for base money growth consistent with bringing inflation down below five percent by the end of the 2007/08 financial year.

17. **The BOU will continue to manage liquidity using an appropriate instrument mix.** Subject to the conditions in the foreign exchange market, BOU will continue to use sales of foreign exchange to sterilize donor inflows. However, the BOU will rely more heavily on open market operations for liquidity management if temporary appreciation pressures jeopardize the orderly operation of the foreign exchange market. At this stage, it is not clear whether the current appreciation pressure is due to permanent or temporary factors.

18. **The BOU is pursuing the tools needed for a future inflation targeting framework.** UBOS is expected to roll out a quarterly GDP index (by October 2007) and a new measure of underlying (core) inflation that would more accurately capture inflationary trends (in June 2007). The new CPI index will be monitored for a transition period of six months before it is published. The BOU will also start producing on a six-monthly basis a monetary conditions report that would relate current economic trends to monetary operations and the inflation target.

19. **To further promote the availability of financial services and lowering borrowing costs, several initiatives are planned.** The recently established credit reference bureau should help making loans more available. The effectiveness of the credit bureau will be enhanced with the expected introduction of the national identity cards. Further, the Government intends to implement the remaining key recommendations of the Financial Sector Assessment Program (FSAP) update, including:

- strengthening the corporate insolvency regime,
- Government submitted to cabinet in October 2006 a new insolvency legislation that gives creditors the right to commence bankruptcy procedures;
- strengthening institutional capacity of the commercial court and of Official Receiver; and
- addressing deficiencies in the land and company registries.

20. **Improving the availability of financial services in rural areas is an important objective.** Such services are being provided by member owned Savings and Credit Cooperatives (SACCOs), but we are concerned that they are not adequately supervised and lack basic accounting skills. To safeguard member deposits in these institutions, we are considering options to regulate SACCOs. In the meantime, we will ask Postbank Uganda (PBU) to assist by bolstering accounting capabilities of SACCOs. We intend to provide U Sh 8 billion in the 2007/08 budget for this effort. Otherwise, we, we expect that SACCOs will be self-supporting We will ensure that these actions are consistent with the existing regulatory and supervisory framework as contained in the Financial Institutions Act 2004 and its implementing regulations.

21. **Further development of the financial sector—including pensions—will make long-term loans more available for housing and business expansion.** Over time, long-term capital might also be used to finance infrastructure projects. Government has approved a plan to strengthen the Uganda Development Bank (UDB) so it can be operated along commercial principles, including providing loans that carry market-based interest rates. Government will not interfere with or direct activities of the UDB. We also plan to restructure the legal and regulatory framework for insurance and private pension companies, as these are the natural source of long-term credit. The new regulatory framework will cover insurance and pension companies, development banks (including UDB), the NSSF, and any financial institution not under the statutory supervision of the BOU. The new environment will ensure that pensions and other savings entrusted to these companies are prudently managed. We will submit the necessary policy paper to Cabinet by end-January 2008.

C. Other Structural Reforms

22. **The Government attaches the utmost importance to addressing the shortage in power generation and will manage this with resources in the budget** to defray the costs of the two already-installed temporary generators and stands ready to finance the third generator in the similar fashion, should donor financing be delayed further.

23. **Our medium-term electricity strategy is anchored by hydropower projects, including Bujagali.** The final agreements for Bujagali are expected to be signed by July 2007. The Government will provide a short-term US$75 million bridge loan—to be repaid during the first half of 2007/08—to the project's developer to jump-start the construction process. Our efforts to increase electricity supplies using temporary diesel generators is paying off, and power cuts have been reduced. We will install an additional 50mw of diesel generators and a 50mw heavy fuel plant in the first half of 2007/08. When these generators are in place, we will retire our most expensive diesel generators and also phase out the fuel excise tax exemption for large private generators.

24. **Prospects for commercial oil production have improved significantly in recent months,** and production could begin in the next several years. Government will put in place a national strategy to ensure that our new found oil will benefit all Ugandans. This strategy will include our commitment to manage these oil resources transparently and to use them consistently with macroeconomic stability. To help alleviate our severe electricity shortage, we intend to begin production, with output feeding a refinery that will mainly produce diesel and heavy fuel oil for electrical generation.

25. **The Government views inadequate infrastructure and low agricultural productivity as major impediments to sustained economic growth.** Reflecting this, agriculture, infrastructure development, including transportation, electricity, and water has been given priority in the 2007/08 budget and updated MTEF. In addition, our debt strategy limits new borrowing to these areas, after sources of grants have been exhausted. At the same time, we see implementation of infrastructure projects and maintenance of existing infrastructure as key constraints. We are looking at ways to improve procurement and management in these areas.

Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for June - December 2007[1]
(Cumulative change from the beginning of the fiscal year, unless otherwise stated) [2]

	June 30		Sept. 30 [3]	Dec. 31
	Prog.	Rev. prog.	Prog.	Prog.
Assessment criteria	(In billions of Uganda shillings)			
Ceiling on the increase in base money liabilities of the Bank of Uganda [4]	167	167	130	207
Ceiling on the increase in net claims on the central government by the banking system	-242	-235	-122	-360
	(In millions of U.S. dollars)			
Ceiling on the stock of external payments arrears incurred by the government or the Bank of Uga	0	0	0	0
Ceiling on new nonconcessional external borrowing with maturities greater than one year contracted or guaranteed by the government or the Bank of Uganda [5 6]				
Bujagali hydropower plant	400	400	400	400
JBIC loan guarantee to Phenix textile factory	…	6	6	6
Other	0	0	0	0
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the government or the Bank of Uganda [5 7]	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda	169	169	58	192
Indicative targets	(In billions of Uganda shillings)			
Stock of domestic budgetary arrears under the Commitment Control System (CCS) [8]	25	80	70	60
Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditure)	1,062	1,062	298	596

[1] The assessment criteria and indicative targets under the program, and their adjusters, are defined in the technical memorandum of understanding (TMU).
[2] Fiscal year begins on July 1.
[3] Indicative targets.
[4] For June 2007, cumulative changes from the average of June 2006; for September and December 2007, cumulative changes from the average of June 2007, as defined in the TMU.
[5] Continuous performance criterion.
[6] Cumulative change from December 1, 2006.
[7] Excluding normal import-related credits.
[8] Arrears incurred after end-June 2004. The stock amounted to USh 27 billion at end-June 2005.

Table 2. Uganda: Structural Assessment Criteria and Benchmarks[1]

Policy Measure	Date of Implementation
Structural Assessment Criteria	
1. For 2007/08 budget, allocate U Sh 280 billion for payments of group (A) verified domestic arrears.[2]	End-June 2007
2. Verify the amount of pension payments due and prepare a review of pension payment and accounting systems, and make recommendations for changes if necessary.	End-May 2007
3. Finalize and publish the Government of Uganda Debt Strategy.	End-December 2007
4. Submit to cabinet a policy paper outlining the establishment of a new regulatory framework for financial institutions not under the statutory supervision of the BOU. These financial institutions will include private and public pension funds, insurance companies, and the Uganda Development Bank.	End-January 2008
Structural Benchmarks	
5. Introduce a system to verify overdue payments from all relevant government entities within 8 weeks of the end of each quarter.	End-April 2007 Completed
6. Submit to cabinet new insolvency legislation.	End-June 2007
7. Begin procurement process for the national identity card system.	End-February 2008
8. Roll out Integrated Payroll and Pension System in pilot ministries.	End-June 2008

[1] Assessment criteria will also apply on a continuous basis to the standard provisions on the exchange and trade issues that apply to programs supported by the Fund's financial resources.

[2] Group (A) arrears comprise the stock of pre-CCS, non-CCS, and CCS arrears incurred before end-June 2004.

UGANDA: TECHNICAL MEMORANDUM OF UNDERSTANDING

A. Introduction

1. This memorandum defines the targets described in the memorandum of economic and financial policies (MEFP) for the July 2006–June 2009 financial program supported by the IMF Policy Support Instrument (PSI), and sets forth the reporting requirements under the instrument.

B. Base Money

2. Base money is defined as the sum of currency issued by Bank of Uganda (BOU) and the commercial banks' deposits in the BOU. The commercial bank deposits include the statutory required reserves and excess reserves held at the BOU and are net of the deposits of closed banks at the BOU and Development Finance Funds (DFF) contributed by commercial banks held at the BOU. The base money limits—programmed on an end-year basis—will be cumulative changes from the daily average of June 2006 to the daily average of June 2007, and cumulative changes from the daily average of June 2007 to the daily average of September and December 2007.

C. Net Claims on the Central Government by the Banking System

3. Net claims on the central government (NCG) by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding deposits in administered accounts and project accounts with the banking system, including the central bank. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes. Central government's deposits with the banking system include the full amount of IMF MDRI. NCG will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey. The quarterly limits on the change in NCG by the banking system will be cumulative beginning end-June in the previous fiscal year.

D. Net International Reserves of the Bank of Uganda

4. Net international reserves (NIR) of the BOU are defined for program monitoring purpose 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.

5. For program-monitoring purposes, reserve assets and short-term liabilities (excluding liabilities to the IMF) at the end of each test period will be calculated in U.S. dollars by converting reserve assets measured in Uganda shillings, as reported by the BOU, using the end-month Uganda shilling per U.S. dollar exchange rate. The U.S. dollar value of outstanding purchases and loans from the IMF will be calculated by converting the outstanding SDR amount reported by the Finance Department of the IMF using the U.S. dollar per SDR exchange rate at the end of each quarter.

E. Ceiling on Domestic Budgetary Arrears of the Central Government

6. The stock of domestic payment arrears under the Commitment Controls System (CCS) will be monitored on a quarterly basis. Domestic payments arrears under the CCS are defined as the sum of all bills that have been received by a central government spending unit or line ministry delivered in that quarter, and for which payment has not been made within 30 days under the recurrent expenditure budget (excluding court awards) or the development expenditure budget. For the purpose of program monitoring, the quarterly CCS reports, which will include arrears accumulated at IFMIS and non-IFMIS sites, prepared by the Internal Audit and Inspection Office will be used to monitor arrears. Arrears can be cleared in cash or through debt swaps.

7. The payments of pre-CCS, non-CCS, and CCS arrears accumulated up to end-June 2004 (“group A arrears”) are covered by specific budget allocations for 2006/07 and 2007/08. The program ceiling on the stock of CCS arrears only covers accumulation of arrears after end-June 2004 (“group B arrears”). According to the verified report prepared by the Internal Audit and Inspection Office, this stock of arrears is estimated at U Sh 27 billion as of June 2005 . As reported further in March 2007, approximately U Sh 65 billion of new arrears have been accumulated in 2005/06.

F. Adjusters

8. The NIR target is based on program assumptions regarding budget support, assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), and external debt-service payments. The NCG target, in addition to being based on the aforementioned assumptions, is also based on assumptions regarding domestic nonbank financing of central government fiscal operations.

9. The Uganda shilling equivalent of budget support (grants and loans) plus HIPC Initiative assistance in the form of grants on a cumulative basis from July 1 of the fiscal year is presented under Schedule A. The ceiling on the cumulative increase in NCG will be adjusted downward (upward), and the floor on the cumulative increase in NIR of the BOU will be adjusted upward (downward) by the amount by which budget support, grants and loans, plus HIPC Initiative and MDRI assistance, exceeds (falls short of) the projected amounts.

Schedule A: Budget Support Plus Total HIPC Initiative Assistance (Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)			
Quarter	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007
Budget support, including HIPC Initiative grants	1117	240	394

10. The ceiling on the increases in NCG will be adjusted downward (upward) and the floor on the increase in NIR will be adjusted upward (downward) by the amount by which debt service due[1] plus payments of external debt arrears less deferred payments (exceptional financing) falls short of (exceeds) the projections presented in Schedule B. Deferred payments are defined to be (i) all debt service rescheduled under the HIPC Initiative; and (ii) payments falling due to all non-HIPC Initiative creditors that are not currently being serviced by the authorities (that is, gross new arrears being incurred).

Schedule B: Debt Service Due, Before HIPC Initiative Assistance (Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)			
Quarter	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007
Debt service due before HIPC, excluding exceptional financing	194	77	133

11. The ceiling on the increase in NCG will be adjusted downward (upward) by any excess (shortfall) in nonbank financing[2] less payment of domestic group A arrears relative to the programmed cumulative amounts presented in Schedule C. For the purpose of this adjuster, payment of domestic group A arrears cannot exceed the programmed amount by more than U Sh 45.0 billion.

[1] Debt service due is defined as pre-HIPC Initiative debt service due, but from 2003/04 onwards, this excludes HIPC Initiative debt rescheduling.

[2] Comprising the check float and the change in government securities and government promissory notes held by the nonbank sector. The change in government securities held by the nonbank sector will be calculated from the data provided by the Central Depository System (CDS).

Schedule C: Nonbank Financing Minus Repayment of Domestic Arrears (Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)			
Quarter	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007
(A) Nonbank financing	71	-38	25
(B) Domestic arrears repayment	149	19	130
(C) Total = (A) –(B)	-78	-57	-104

12. The base money ceiling will be adjusted upward up to a maximum of U Sh 30 billion in June, September, and December 2007 if the average amount of currency issued by the BOU exceeds those projected in Schedule D. This currency adjuster was increased from U Sh 15 billion previously to allow the BOU more flexibility in an uncertain monetary environment.

Schedule D: Currency Issued by the BOU (Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)			
Quarter	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007
Currency issued by BOU	139	41	145

G. External Borrowing Contracted or Guaranteed by the Central Government, Statutory Bodies, or the Bank of Uganda, and Arrears

13. The assessment criterion on short-term debt refers to contracting or guaranteeing external debt with original maturity of one year or less by the government or the Bank of Uganda. Excluded from this assessment criterion are normal import-related credits. The definition of "debt" is set out in paragraph 17.

14. The program includes a ceiling on new nonconcessional borrowing with maturities greater than one year contracted or guaranteed by the government, statutory bodies, or the BOU.[3] Nonconcessional borrowing is defined as loans with a grant element of less than 35 percent, calculated using average commercial interest rates references

[3] Contraction is defined as approval by a resolution of Parliament as required in Section 20(3) of the Public Finance and Accountability Act, 2003

(CIRRs) published by the Organization for Economic Cooperation and Development (OECD). In assessing the level of concessionality, the 10-year average CIRRs should be used to discount loans with maturities of at least 15 years, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and 6-month averages, the following margins for differing payment periods should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–25 years; and 1.25 percent for 30 years or more. The ceiling on nonconcessional external borrowing or guarantees is to be observed on a continuous basis. The coverage of borrowing includes financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. Excluded from the limits are changes in indebtedness resulting from refinancing credits and rescheduling operations, and credits extended by the IMF. For the purposes of the program, arrangements to pay over time obligations arising from judicial awards to external creditors that have not complied with the HIPC Initiative do not constitute nonconcessional external borrowing. For the purposes of the program, the Bujagali project is defined as the hydroelectric dam and related equipment located at the dam site.

15. The definition of debt, for the purposes of the limit, is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 12274-(00/85), August 24, 2000). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

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

the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

16. 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 government, the BOU, and statutory bodies[4] from their level at end-June 2006. It comprises those external arrears reported by the Trade and External Debt Department of the BOU, the Macro Department of the Ministry of Finance that cannot be rescheduled because they were disbursed after the Paris Club cutoff date.

H. Monitoring and Reporting Requirements

17. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Uganda or in the United States) prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any nonconcessional external debt contracted or guaranteed by the government, the BOU, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed by these entities. The authorities will furnish an official communication to the IMF describing program performance of quantitative and structural assessment criteria and benchmarks within 8 weeks of a test date. The authorities will on a regular basis submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The information should be mailed electronically to AFRUGA746@IMF.ORG .

[4] This definition is consistent with the coverage of public sector borrowing defined by the Fund (includes the debt of the general government, monetary authorities, and entities that are public corporations which are subject to the control by government units, defined as the ability to determine general corporate policy or by at least 50 percent government ownership).

Table 1. Summary of Reporting Requirements

Reporting institution	Report/Table	Frequency	Submission lag
I. Bank of Uganda	Issuance of government securities.	Weekly	5 working days
	Interest rates on government securities.	Weekly	5 working days
	Operations in the foreign exchange market and daily average exchange rates.	Weekly	5 working days
	Consumer price index.	Monthly	2 weeks
	Balance sheet of the BOU, consolidated accounts of the commercial banks, and monetary survey. The Internal Audit Department (IAD) of the BOU will review the reconciliations of monetary survey data with the financial records and the audited financial statements. Any revisions to monetary survey data, in line with the recommendations of the IMF safeguards mission, will be documented and reconciled with the previous presentation to ensure accurate reporting.	Monthly	4 weeks
	Statement of (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.	Monthly	6 weeks
	Summary of (i) monthly commodity and direction of trade statistics; (ii) stock of external debt, disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category; and (iii) composition of nominal HIPC Initiative assistance, disaggregated into grants, flow rescheduling, and stock-of-debt reduction by creditor.	Monthly	6 weeks
	Summary of external debt, external arrears, and committed undisbursed loan balances by creditor.	Quarterly	6 weeks
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks
	Summary table of preliminary program performance comparing actual monthly outcome with adjusted program targets for (i) base money; (ii) net claims on central government by the banking system; (iii) stock of external arrears; (iv) new nonconcessional external borrowing; and (v) net international reserves	Quarterly	5 weeks

Table 1. Summary of Reporting Requirements

Reporting institution	Report/Table	Frequency	Submission lag
II. Ministry of Finance	Summary of central government accounts. Revenues shall be recorded on a cash basis. Expenditures shall be recorded when checks are issued, except for domestic and external debt-service payments, cash transfers to districts, and externally funded development expenditures. Expenditures on domestic interest will be recorded on an accrual basis and external debt service will be recorded on a commitment basis (i.e., when payment is due). Cash transfers to districts will be recorded as expenditures of the central government when the transfer is effected by the BOU. Expenditures on externally funded development programs will be recorded as the sum of estimated disbursements of project loans and grants by donors, less the change in the stock of government project accounts held at the BOU and domestic commercial banks.	Monthly	6 weeks
	Summary of outstanding stock of group (B) domestic arrears. Group (B) arrears comprise the stock of CCS/IFMS arrears incurred after end-June 2004.	Quarterly	6 weeks
	Summary of contingent liabilities of the central government. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Quarterly	6 weeks
	Detailed central government account of disbursed budget support grants and loans, HIPC support, and external debt service due and paid.	Monthly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	Statement on new loans contracted during the period according to loan agreements.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	4 weeks