Uganda Extractive Industries Transparency Initiative

DISSEMINATION OF THE CHARTER FOR FISCAL RESPONSIBILITY AND FISCAL RULE FOR THE MANAGEMENT OF UGANDA'S OIL RESOURCES

Summary Report

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Imperial Royale Hotel,
Kampala – Uganda

Abbreviations & Acronyms.

CFR	Charter for Fiscal Responsibility
COP	Conference of Parties
FR	Fiscal Rule
FY	Financial Year
GDP	Growth Domestic Product
IDA	International Development Association
MDAs	Ministries, Departments and Agencies
MEMD	Ministry of Energy and Mineral Development.
MOFPED	Ministry of Finance, Planning and Economic Development
NDP	National Development Plan
PAU	Petroleum Authority of Uganda
PFM	Public Finance Management
PRIR	Petroleum Revenue Investment Reserve
PS/ST	Permanent Secretary and Secretary to Treasury
WB	World Bank

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1.0 INTRODUCTION

This report provides an overview of an activity at a workshop held by MoFPED to disseminate the Charter for Fiscal Responsibility (CFR) and Fiscal Rule for Uganda's Oil Resources. Revenues from oil production have a great potential to stimulate sustainable economic growth if well managed. On the other hand, the volatility of the oil revenues combined with significant pressure to spend in proportion to oil revenue volumes can open up an economy to vulnerabilities such as potential macroeconomic imbalances, higher poverty rates and unsustainable debt levels. For this reason, commercial oil production will require a new take on fiscal policy management and as well necessitate adjustments to the current fiscal framework.

According to the PFM Act 2015, the enhanced fiscal framework shall necessitate new aspects to fiscal policy management for oil revenues channeled towards budget funding versus oil revenues channeled to PRIR. The framework shall also require mechanisms to ensure macroeconomic stability and fiscal sustainability amidst oil revenue flows.

Section 4(3) of PFM Act requires the Minister of Finance, Planning and Economic Development to prepare a CFR in which he shall set measurable fiscal objectives. The Charter states Government's fiscal policy objectives that will ensure fiscal sustainability as the country implements its plans for socioeconomic transformation. In fulfillment of the law, the CFR for FY2021/22-2025/26 was prepared and approved by Parliament in February 2022.Embedded in the Charter is the Fiscal Rule that will guide the appropriation of petroleum revenues for government operations.

The Charter has three measurable objectives to guide fiscal policy, namely;

i) The ratio of total public debt to GDP in nominal terms is reduced below 50% by FY2025/26.

ii) The overall fiscal balance including grants should gradually adjust to a deficit not exceeding 3.0 percent of non-oil GDP by financial year 2025/26.

iii) A maximum of petroleum revenue worth 0.8% of the preceding year's estimated non-oil GDP outturn shall be transferred from the Petroleum Fund to the Consolidated Fund for budget operations, and the remainder of the petroleum revenues shall be transferred to the PRIR.

The event was attended by officials from all relevant MDAs, stakeholders in the Oil and Gas sector, private sector, academia and the media.

The purpose of the workshop was to provide Government's fiscal policy objectives for the next five years that will ensure sustainable delivery of the country's goal of socioeconomic transformation resulting in increased household incomes and improved quality of life for Ugandans as well as layout the guideline on how petroleum revenues will be apportioned to support budgetary operation and PRIR.

The workshop commenced with arrival and registration of participants, the Moderator Mr. Morris Mugisha welcoming all to the event and introducing the programme.

2.0 Opening Remarks

The remarks were made by the Hon. Amos Lugolobi, Minister of State (Planning), MOFPED. He welcomed all the participants to the workshop and thanked all for taking the time to attend. He noted that this was the second charter after the expiration of the first one in June 2020.The dissemination through such a public event was to enhance accountability and transparency of Government's the fiscal policy.

He said Covid-19 constrained government tax revenues leading to an increase in public debt to 48.4% as of June 2022. Before the pandemic, the country enjoyed growth rates as high as 6.4% in FY2018/19 and inflation lower than 5%.

The effects of oil production necessitate prudent management of the revenues generated. The CFR framework would support maintenance of macroeconomic stability and ensuring intergenerational wealth.

Through implementation of the policy, the public debt shall gradually reduce below 50% by the end of FY2025/26.The overall fiscal balance including grants was not to exceed 3% of non-oil GDP by FY2025/26 as well as ensuring the equitable utilization of petroleum revenues by applying 0.8% of the previous year's non-oil GDP outturn to the Consolidated Fund and the balance to PRIR.

Government would be in position to achieve its policy objectives of enhancing revenues by closing all loopholes in the collection process as well as timely implementation of public projects that would generate growth and create jobs.

Picture: Hon. Amos Lugolobi (MP), Mister of State (Planning), MOFPED making his remarks at the launch of the CFR FY2021/22 – 2025/26.

3.0 Remarks from the Norwegian Counterparts

The remarks were first made by the Norwegian Ambassador to Uganda, Her Excellency, Elin Johansen who thanked MOFPED for organsing the event and the opportunity given to her to make remarks. She said she acknowledged the achievements made as a result of bilateral cooperation between the two countries especially with the key institutions in the Oil and Gas Sector which spanned many years.

The programme for cooperation especially in the Oil and Gas sector had been extended for two years to 2024.With oil production, government needed to put theory of fiscal management into practice to avoid negative effects associated with exploiting the resource. The Norwegian government had provided the best technical expertise to support development of the Fiscal Rule in oil and gas management while working with MOFPED and all stakeholders in the sector.

While closing her remarks, she then invited the Key Expert, Mr. Tore Eriksen from the Mistry of Finance, Norway to make his remarks. He said while working with MOFPED since 2018, they have been able to share experiences in managing the oil sector and its revenues since Norway started production in 1971.

Many countries with resource wealth seemed to suffer from resource curse. Through mistakes, Norway had been able to overcome these mistakes and had benefitted immensely from petroleum revenues.

Revenues from oil were different from others since they were temporary and highly volatile. The proceeds from oil necessitated decoupling of spending from current accrual. The Fiscal Rules of the two countries differed in some respects which are; the relative share of petroleum in Norway's economy was higher, the income levels were higher and in Norway, there would be a rapid ageing of the population in decades to come.

There was a good balance in the Fiscal Rule which was noted as; debt ceiling of 50% of GDP, a limit of 2% deficit of GDP on non-oil primary balance to ensure that debt ceiling was kept below 50%, saving money for future generations by applying 0.8% of GDP from oil revenues and transferring the rest to PRIR and an escape clause to cater for natural disasters, severe shock to economy etc.

Picture: The Norwegian Ambassador, H.E. Elin Johansen making her remarks at the launch of CFR FY2021/22 – 2025/26.

4.0 Current status/overview of the Oil and Gas Sector of Uganda

The remarks were first made by the Executive Director of PAU, Mr. Earnest Rubondo who thanked MOFPED for organizing the event and giving PAU the opportunity to provide an update of the Oil and Gas Sector.

He said the goal of the Oil and Gas policy was to create lasting value for the citizens. Uganda recognized aspects of the value of Oil and Gas policy to make the sector successful. He noted that it was exciting to see that the country had started receiving oil revenues and they were being planned for. The delay in the production of oil was as a result of the time taken for preparation of the sector with its associated benefits and congratulated all the individuals involved in the process.

He said the role of PAU at the event was to provide a status update of the sector and he therefore invited the Director Technical Support Services, Ms. Peninah Aheebwa to make the presentation.

She said government should ensure prudent fiscal management plans if the fiscal policy is to materialize. The fiscal policy states that a maximum of oil revenue worth 0.8% of the previous year's estimated non-oil GDP outturn shall be transferred to the Consolidated Fund for budget operations and the balance transferred to the PRIR.

Picture: The Executive Director, PAU, Mr. Earnest Rubondo making his remarks at the launch of CFR FY2021/22 – 2025/26.

5.0 Fiscal Rule, Charter for Fiscal Responsibility

The presentation was made by the Commissioner Macroeconomic Policy Department, MOFPED, Dr. Albert Musisi. The key highlights were:

- There have been two CFR which are; the first Charter FY2016/17-2020/21 and the Current one FY2021/22-2025/26.
- The main difference between the first and second is the inclusion of the management of Petroleum Revenues.
- The three key objectives of the new charter was to manage

public debt, fiscal deficit/balance and the management of petroleum revenues for current and future generations.

- There was need to utilize oil revenues sustainably to avoid the Dutch Disease.
- There was need to smoothen long term spending to ensure that current and future generation benefit from oil revenues.

6.0 Q&A Session

Participants made a number of comments and asked questions as noted below:

-The Fiscal Rule was very strong on expenditure but there was need for government to expand the tax base to generate the much needed revenues. The Fiscal Charter demand side was strong while very weak on the supply side.

-During planning, the Budget Framework was very strong but there was need to see NDPIII planning become stronger. There was need to have the NDPIII planning framework carried out twice a year and aligned with the Budget Planning Framework which happens annually.

-The first Fiscal Rule performed well on debt which led to fiscal deficit. It managed external debt and focused more on domestic debt. Where was external debt servicing catered for in the Charter? The Charter allows for 0.8% of the previous year's revenues to be transferred to the Consolidated Fund and the rest to PRIR. Who was to manage and monitor the process?

-When comparing the value of public debt to GDP in nominal terms, was government taking into consideration the time value of money?

-Using the debt ratio, how much debt was being put into the productive sector. Most of the citizens were engaged in the agricultural sector and how much of the oil revenues were budgeted for transforming the sector in the short and long term.

-The Charter grants the Minister Powers to publish within 30days in case of a deviation from the rule, who checks if the information was correct to avoid errors?

-There was need for clarification on public debt rule using the first charter versus the current one taking into account the timeframe needed for publishing.

-The second charter was a good improvement from the first which was more aggregated in nature. It requires a notification in case of deviation. Among the conditions for deviation like fiscal shock, there was need for clear definitions to provide for limitations where necessary.

-UGEITI Secretariat said Uganda joined EITI in August 2020 and the first report was produced in May 2022.The role of the Secretariat was to promote transparency in the management of the extractives sector. PAU made a presentation and said the country was to earn about US$2.8b annually. There was need for clarity on the breakdown of figures for 0.8% of the revenues that were to be transferred to the Consolidated Fund, and the balance to the PRIR. This was to support EITI implementation for the citizens to understand how the revenues are utilized.

-There was disappointment that MPs at the event were questioning the Fiscal Charter yet it was approved by Parliament in February 2022.MOFPED made projections after proper research using statistics and best practices.

-The citizens were complaining about public debt not being managed well yet a threshold had been put at 50% of GDP. There was need to use statistics and data to manage because by FY2025/26, the government might surpass the threshold.

Picture: Participants at the launch of the CFR FY2021/22 – 2025/26.

Response from MOFPED

Calculation of Numbers: For the oil revenues that were projected at about US$2.8b annually when applying the Fiscal Rule of 0.8%,the calculations were based on an assumption of Oil and Gas production in relation to GDP taking into account that the price of oil per barrel would remain stable at the period used for calculation. A projection of about US$1b of revenues was expected if oil was at US$60 per Barrell. The total that would be taken to the Consolidated Fund was to be calculated as 0.8% of US$2.8b (0.8%*2.8).

Debt: Government intends to maintain the debt ceiling at 50% of GDP. If the economy is to generate a lot of revenue, then there would be no need for borrowing. With the report and using the CFR, the country may not reach the

50% mark. The report was to be used to guide public expenditure.

Growth and Deviation: Sustainable fiscal balance was to be maintained to achieve sustainable growth. With the approval of Parliament, government would have to borrow if there was need to deviate in case of disasters, economic shocks etc. The Minister would be able to do the needful basing on the circumstance because it's provided for under the Escape Clause.

Value of GDP vs nominal debt: There was need to monitor the liquidity nature of the economy. Currently government was acquiring more commercial debt which was not like the WB loans with repayment periods of up to 40years. The commercial debts were short term that was why the nominal value was considered.

Agriculture: The charter has to be consistent with the NDP. When government was allocating and distributing resources, this was always taken into account. The NDP provided guidance on how to allocate these resources to each sector with elaborate details.

Withdrawals from PRIR: The law (PFM Act) does not allow. It had to be done with approval of Parliament. The Minister cannot just do this unless the law was changed.

Operational targets for maintaining 50%: The Fiscal Rule was used for determining how to manage debt. The fiscal path ensured that the country could reach the 50% mark though when the threshold was exceeded, it's considered unsustainable.

Strong Planning framework vs Budgetary framework: The Hon. Minister responded and said the Planning framework was as strong as the Budget framework and both worked hand in hand. Using the Programme Budget

Framework which the government had adopted for implementation, these were closely linked when planning during the budget process. There was also the National Budget Review process which supported both.

The Deputy PS/ST in his response said during the recently concluded COP summit of 2022, they managed to meet with the IDA team. Emphasis was put on the need to adopt climate smart agriculture since Climate Change was a reality. Government was encouraged to take Climate Change into consideration during the budgeting process. He noted that there was funding of about US$300m earmarked for support and identification of technologies for smart agriculture.

For management of the petroleum revenues, the Fiscal Rules stated that a maximum of oil revenue worth 0.8% of the previous year's estimated non-oil GDP outturn shall be transferred to the Consolidated Fund for budget operations and the balance transferred to the PRIR. When considering the estimated US$2.8b that was to be received annually from the sector, we would have 0.8% of US$2.8b (0.8%*2.8).So this could be well documented to support EITI implementation.

7.0 Launch of the Charter for Fiscal Responsibility & Fiscal Rule

Picture: Hon. Amos Lugolobi (MP), Mister of State (Planning), MOFPED launching the CFR FY2021/22 – 2025/26.

Picture: The Hon. Minister of State (Planning), MOFPED poses with officials from MDA's after the launch of CFR FY2021/22 – 2025/26.

8.0 Closing Remarks

The Closing Remarks were read by the Deputy PS/ST, MOFPED, Mr. Patrick Ocailap on behalf of the PS/ST. He noted that if oil revenues were not managed well then this would lead to resource curse. Oil prices were normally affected by demand and supply leading to volatility. The Fiscal Rule for oil management was anchored on the charter for Fiscal Responsibility FY2021/22-2025/26.

The CFR provided for Governments fiscal policy objectives in the next five years aimed at maintaining fiscal sustainability by managing the deficit bias thus gradually reducing public debt. It was formed with the involvement of key stakeholders from the Ruling Party, Parliament, MEMD, MOFPED etc. It took into consideration the best practices from countries such as Norway. He thanked all stakeholders and participants for taking time to attend the event.