



GUIDELINES FOR FINANCIAL CLEARANCE

JULY
2025

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

Budget Directorate
MOFPED
#DoingMore



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Acronyms and Abbreviations

CCBR – Cost-Benefit Ratio

CFI – Certificate of Financial Implications

CO₂ – Carbon dioxide

CSCF – Commodity Specific Conversion Factors

DCF – Discounted Cash Flow

ENPV – Economic Net Present Value

ERR – Economic Rate of Return

ERS – Economic Resource Statement

IRR – Internal Rate of Return

MDAs – Ministries, Departments and Agencies

MoFPED – Ministry of Finance, Planning and Economic Development

MTEF – Medium-Term Expenditure Framework

NDP – National Development Plan

NPV – Net Present Value

NTR – Non -Tax Revenue

O&M – Operate and Maintain

PAD – Project Appraisal Document

PFMA – Public Finance Management Act

PWDs – People with Disabilities

PWG – Programme Working Group

SFI – Statement of Financial Implications

SMEs – Small and Medium Enterprises

UGX – Uganda Shillings

WTP – Willingness to Pay

FAC – Fiscal Assessment Committee

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Foreword

The Executive and Legislative arms of Government, in executing their mandates, require all entities submitting legislative or policy proposals to acquire Certificates of Financial Implications and Letters of Financial Clearance, respectively. This requirement is enshrined in the Public Finance Management Act (CAP 171), the Cabinet Secretariat's Guidelines and the Rules of Procedure of Parliament.

The guidelines for financial clearance were first introduced in 2015 to govern the process underlying the issuance of Certificates of Financial Implications and Letters of Financial Clearance. However, after ten years of implementation, the guidelines have been evaluated for their effectiveness in ensuring compliance with the requirements in the Law. From the evaluation process, stakeholders raised the following concerns:

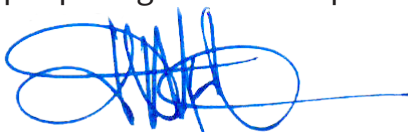
- i. Reported delays in the issuance of certificates, in part arising from the lack of or insufficient information provided to facilitate preparation of the certificate.
- ii. Inadequate capacity to assess the impact of policy and legislative proposals on the economy.
- iii. Lack of clarity on the specific roles and responsibilities of key stakeholders in the review and approval processes.
- iv. Lack of a reliable database to track the status of submissions by MDAs.

The revised guidelines are therefore intended to address the concerns of the stakeholders. They present a framework that the Government will apply in assessing the financial and socio-economic implications of legislative and policy proposals. In addition, the guidelines introduce an institutional framework to strengthen consultations amongst relevant stakeholders and capacity building where it is required.

It is also envisaged that they will serve as the foundation for the automation of the business processes for the preparation, review and issuance of Certificates of Financial Implications, to better manage the large volumes of information generated during the process. The guidelines have been developed with due regard to relevant legal, procedural, and policy instruments, as well as international best practices.

I commend the Infrastructure and Social Services Department (ISSD) for their leadership on this important task. I also appreciate the invaluable contributions of all stakeholders who actively participated in the development of these guidelines. Your contributions have been key to shaping people-centered policies and laws.

I encourage all MDAs to embrace and apply the guidelines as a foundation for fostering inclusive, transformative, and pro-people legislation and policies.



Ramathan Ggoobi

PERMANENT SECRETARY/SECRETARY TO THE TREASURY

SECTION 1: INTRODUCTION

Background

- 1.1 In accordance with Article 79 (2) of the Constitution, which confers on Parliament¹ the powers to make laws in Uganda, the Rules of Procedure of Parliament require all Bills to be accompanied by a Certificate of Financial Implications setting out the specific outputs and outcomes of the Bill, how those outputs and outcomes fit within the overall policies and programmes of Government, the costs involved and their impact on the budget, and the proposed or existing method of financing the costs related to the Bill and its feasibility.
- 1.2 In line with Article 111(2) of the Constitution, which empowers Cabinet to determine, formulate and implement Government policy, the Cabinet Secretariat² requires the Ministry of Finance, Planning and Economic Development (MoFPED) to issue Letters of Financial Clearance for information papers, national- and programme-level policy proposals, principles for new laws (Bills), ratification of protocols, treaties, conventions and agreements, Memoranda of Understanding (MOUs), appointment and/or renewal of Boards, and loan proposals.
- 1.3 Consistent with the requirements of the Rules of Procedure of Parliament and Guidelines on Policy Development, it is a requirement by the Public Finance Management Act PFMA (CAP 171)³ that:
 - i Every Bill introduced in Parliament be accompanied by a Certificate of Financial Implications issued by the Minister responsible for Finance, Planning and Economic Development.
 - ii. The Certificate of Financial Implications discloses the estimates of revenue and expenditure or the expected savings resulting from the implementation of the Bill over the period of not less than two years after its coming into effect when passed.
 - iii. The certificate of financial implications discloses the impact of the Bill on the Economy.
 - iv. A certificate of financial implications is deemed to have been issued after 60 days from the date of request for the certificate from the Ministry.

Problem Statement

- 1.4 Following the enactment of the PFMA (CAP 171), the Ministry of Finance, Planning and Economic Development (MoFPED) developed and disseminated guidelines⁴ for the issuance of Certificates of Financial Implications and Letters of Financial Clearance.

¹ rule 102 (Certificate of Financial Implication)

² Guide to Policy Development and Management

³ Section 74 of the PFMA(CAP171) (cost estimates for bills)

⁴ The guidelines were issued in October 2015

However, for the period over which the 2015 guidelines have been in force, the level of compliance with the scope of requirements set by the Parliamentary Rules of Procedure and the PFMA (CAP 171) remains unsatisfactory, especially, in regard to the assessment of the socio-economic impact of legislative and policy proposals. In addition, there are reported delays in the processing of certificates, which undermine the effectiveness of the legislative and policy formulation processes. There is, therefore, need to strengthen the 2015 guidelines to address the following challenges:

- i. The lack of standards for the estimation of financial, socio-economic and equity implications of the policy and legislative proposals submitted to Cabinet and Parliament.
- ii. The need to strengthen, through consultations, the level of consensus and ownership of decisions taken on the economic and financial implications of policy and legislative proposals.
- iii. The need to provide real time information on the status of policy and Legislative proposals during the preparation, review and issuance of Certificates of Financial Implications.

Objectives of the Guidelines

- 1.5 The overall objective of the 2025 guidelines therefore is to strengthen compliance of legislative and policy proposals with the PFMA (CAP 171) , Parliamentary Rules of Procedure and the National Planning Framework. The specific objectives of the guidelines are:
 - i. To prescribe an institutional framework to guide preparation of submissions by Ministries, Departments and Agencies (MDAs) to MoFPED;
 - ii. To provide an analytical framework to guide the review of the financial, socio-economic and equity implications of MDA submissions;
 - iii. To establish lead times governing the submissions, reviews and approvals of Certificates of Financial Implications and Letters of Financial Clearance; and
 - iv. To establish a framework for the automation of the processes underlying the management, review and approval of MDA submissions or requests for financial clearance.

Structure of the Guidelines

- 1.6 The guidelines are structured in six sections. Section One provides background information covering the legal basis, justification and objectives of the revised guidelines. Section Two lays out the key principles underlying the revised guidelines as derived from international best practice and Uganda's legal and policy frameworks. Section Three defines the scope of the guidelines, followed by a summary description of the institutional arrangements that shall govern the preparation, review and issuance of Certificates of Financial Implications and Letters of Financial Clearance.
- 1.7 Sections Four and Five provide guidance on the institutional arrangements and the methodologies to be applied in the assessment of financial and economic implications, respectively. Section Six, consists of a set of annexes which include reporting templates and guidance notes in the areas of; stakeholder analysis, evaluation of socio-economic impacts, and risk assessment.

SECTION 2: PRINCIPLES UNDERLYING THE REVISED GUIDELINES

- 2.1 The following principles shall govern the preparation and review of policy and legislative proposals for purposes of issuance of Certificates of Financial Implications or Letters of Financial Clearance:
 - i. **Alignment:**
The need for public policy, regulatory and legislative proposals to be aligned to Government's Development Objectives as dictated by the National Development Plan, Vision 2040 and the Regional Development Agenda.
 - ii. **Efficiency:**
The need for policy, regulatory and legislative proposals to be efficient and contribute to a more competitive national economy by reducing unnecessary costs imposed on the economy or only impose costs that are necessary.
 - iii. **Affordability:**
The need for policy, regulatory and legislative proposals to consider the limits to the Government revenue base, debt carrying capacity and competing priorities.
 - iv. **Benefit to the Society:**
The need for expected benefits from policy, regulatory and legislative proposals to outweigh the related compliance and implementation costs to society.

v. **Equity:**

The need to ensure that the benefits of the policy, regulatory and legislative proposals are equitably distributed across all stakeholders and that there are measures to mitigate adverse effects to vulnerable groups;

vi. **Accuracy and Transparency:**

The need to ensure full disclosure of the assumptions underlying the estimated financial and socio-economic implications for all policy, regulatory and legislative proposals evaluated.

SECTION 3: SCOPE

3.1 In line with Section 74 of the PFMA (CAP 171), the Rules of Procedure of the Parliament of Uganda and the Cabinet Secretariat's Guide to Policy Development and Management, these guidelines are applicable to the following:

- i. Issuance of Certificates of Financial implications by the Honorable Minister of Finance Planning and Economic Development, for every Bill introduced to Parliament irrespective of whether it is a Government Bill or a Private Member's bill.
- ii. Issuance of the letter of Financial Clearance by the Permanent Secretary/Secretary to the Treasury, for every submission of a Cabinet Memorandum to Cabinet in regard to:
 - a. Ratification of protocols, treaties, conventions and agreements;
 - b. Approval of Draft Bills;
 - c. Approval of Principles for new laws (Bills);
 - d. Approval of national and sector policy proposals (those that may not result in or require legislation);
 - e. Cabinet information papers;
 - f. Approval of Statutory Appointments; and
 - g. Any referral by Cabinet or Attorney General for purposes of financial clearance
- iii. Issuance of the Letter of Financial Clearance by the Permanent Secretary/Secretary to the Treasury, for every submission on the Creation of New University Programmes.
- iv. Preparation of statements of financial and economic implications for policy and legislative proposals by MDAs for purposes of review and approval by the Ministry of Finance, Planning and Economic Development.

- v. Review of the statements of financial and economic implications in 3.1 (iv) by Ministry of Finance, Planning and Economic Development.
- vi. Approvals by the Ministry of Finance, Planning and Economic Development and Program Working Groups of Submissions by MDAs.

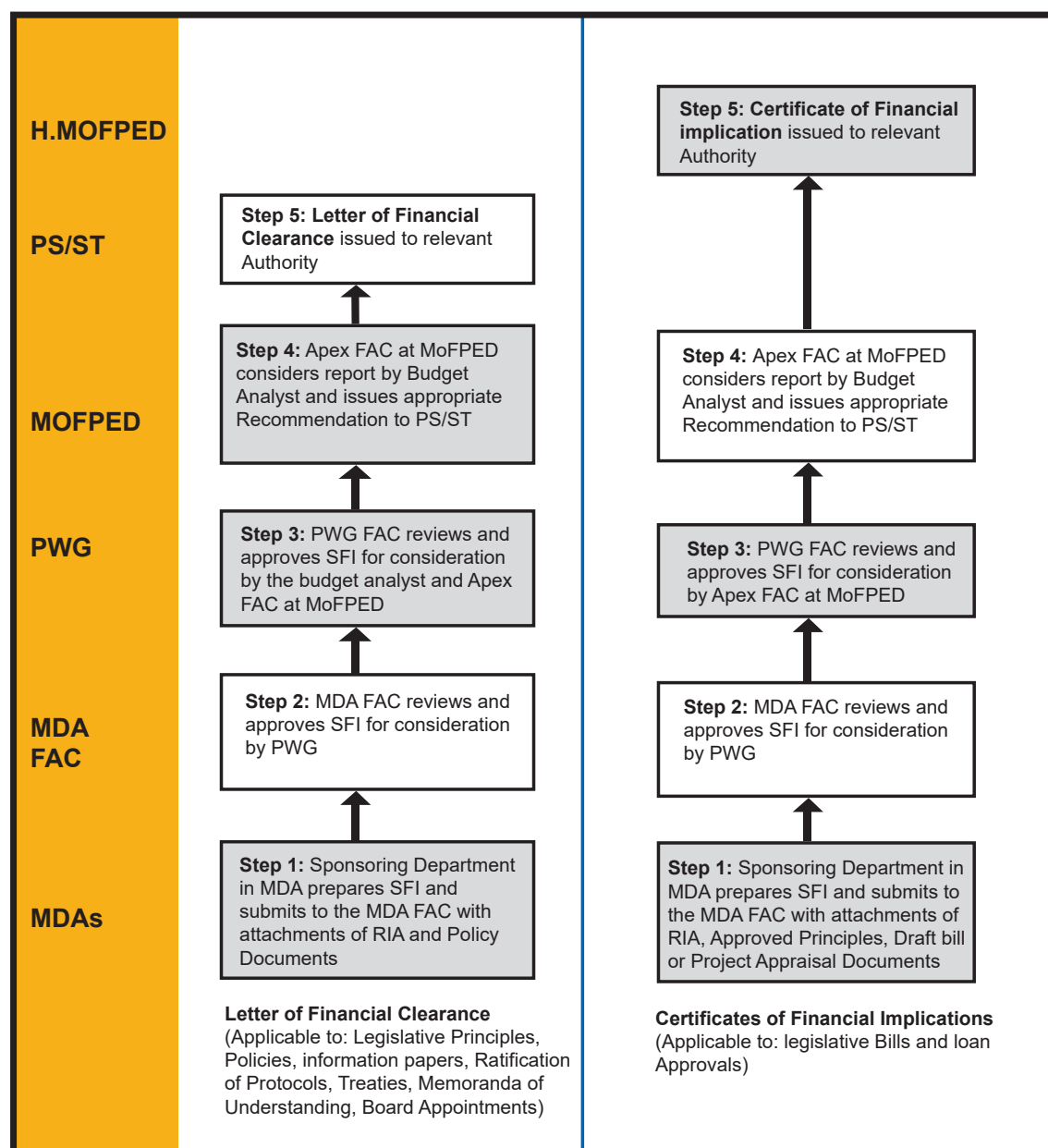
SECTION 4: INSTITUTIONAL ARRANGEMENTS

4.1 Policy, regulatory and legislative proposals have the potential to affect resource allocations across programmes irrespective of the initiating MDA. For purposes of facilitating transparency and accountability for financial and economic implications at all levels within the programmatic planning and budgeting frameworks adopted by Government, the following Committees shall be established:

- i. A Regulatory Fiscal Assessment Committee at the MDA level to ensure adequate coordination and consultations in the preparation of relevant submissions to the Ministry of Finance, Planning and Economic Development, for purposes of issuance of Certificates of Financial Implications and Letters of Financial Clearance. Within the MDA, Senior Management Meetings may reconstitute themselves into the Committee for this purpose. The secretariat to this Committee shall be the Planning and Policy Unit under the respective MDAs. The Committee should have representation of all the Departments in the MDA (Senior Management); and it shall meet once a month or as often as needed.
- ii. A Regulatory Fiscal Assessment Committee within the framework of the Programme Working Group to approve the submissions from the MDAs. The Project Preparation Committee for the Programme Working Group can adopt this role. The Committee shall meet every two weeks or as often as needed.
- iii. A Regulatory Fiscal Assessment Committee at the Ministry of Finance, Planning and Economic Development. The Committee will have representatives from all the Directorates of the Ministry of Finance, Planning and Economic Development. It shall meet once a week or as often as needed to consider Statements of Financial Implications from MDAs in line with the guidelines.

4.2 The new institutional arrangement is illustrated in the schematic diagram in Figure 1.

Schematic diagram for the new institutional framework for Clearance of Financial Implications



***FAC - Fiscal Assessment Committee**

Figure 1: Schematic Diagram for the New Institutional Framework for Clearance of Financial Implications

SECTION 5: SUBMISSIONS BY MDAS

Requirement to Prepare a Statement of Financial Implications

- 5.1 In order to expedite the review of the legislative or policy proposals as well as the issuance of Letters of Clearance or Certificates of Financial Implications, MDAs will be required to prepare a Statement of Financial Implications.
- 5.2 The Statement of Financial Implications will be submitted to MoFPED 60 days before submission to Parliament/Cabinet of a Draft Bill for new laws, protocols, treaties, conventions, agreements, policy proposals, information papers, statutory appointments and any referral for purposes of financial clearance to Cabinet. This is in line with Section 74 of the Public Finance Management Act (CAP 171).
- 5.3 The main objective of the Statement of Financial Implications shall be to enable an MDA to provide its own assessment of the potential financial and or economic implications of the legislative or policy proposals submitted to the MoFPED for purposes of financial clearance.
- 5.4 The countdown to the 60-day deadline for the issuance of financial clearance shall start to apply from the moment the sponsoring MDA fully complies with the requirements in the Submission Checklist (attached as Annex 9).
- 5.5 The Statement of Financial Implications shall be subject to:
 - (i) Approvals by the Regulatory Fiscal Assessment Committee within the sponsoring Vote.
 - (ii) Approvals by the Regulatory Fiscal Assessment Committee of the Programme Working Group (PWG).
 - (iii) Approvals by the Apex Regulatory Fiscal Assessment Committee at the Ministry of Finance, Planning and Economic Development.
- 5.6 The submission from the MDA shall be accompanied by a copy of the approved Regulatory Impact Assessment (RIA) report from the Office of the President (Cabinet Secretariat) or the Project Appraisal Document (PAD) in the case of proposed loan financing.
- 5.7 The content of the Statement of Financial Implications shall be as detailed in Annex 1 and defined to include the following:
 - i. An introduction, comprising a brief background of the contents of the proposed Bill, including its justification.
 - ii. Relevance of the proposed submission to the development agenda by identifying the National Development Objectives the submission is expected to

contribute to.

- iii. A detailed stakeholder analysis with evidence of consultation and a clear strategy for stakeholder management. This section must identify and estimate expected costs of compliance by stakeholders with the proposed legislation, policy or any other submission requiring financial clearance.
- iv. Specification of the expected outcomes of the Bill;
- v. Identification of the interventions needed to operationalize the Bill and evidence of the options considered.
- vi. Capacity of the MDA to operationalize the policy, regulatory or legislative proposal when in force.
- vii. An estimate of the expected financial costs and sources of financing for the preferred option. Costs must be supported by bills of quantities signed off by a registered engineer or relevant expert.
- viii. Disclosure of likely opportunities for the generation of fiscal revenues by way of tax, levies or any other form of non-tax revenues expected.
- ix. The implementation plan or strategy.

Private Member's Bill

5.8 In the case of a Private Member's Bill, the Private Member sponsoring the Bill shall work with the responsible MDA to prepare the Statement of Financial Implications prior to requesting financial clearance from the Ministry of Finance, Planning and Economic Development.

5.9 The Statement of Financial Implications shall be subject to the approvals required under paragraph 5.5.

New University Programmes

5.10 In the case of the introduction of New University Programmes, the sponsoring University shall prepare the Statement of Financial Implications prior to requesting financial clearance from the Ministry of Finance, Planning and Economic Development.

5.11 The Statement of Financial Implications shall be subject to the approvals required under paragraph 5.5.

Review of Submissions from MDAs by MoFPED

5.12 In order to ensure that the new public policy, regulation or law and all Government interventions are in line with the principles in section 2 of the guidelines, all submissions shall be subjected to an Integrated Regulatory Cost-Benefit Analysis. In this regard, the Ministry of Finance, Planning and Economic Development, through the Apex Regulatory Fiscal Assessment Committee, shall be required to subject submissions from MDAs to the following four assessments:

- i. **Budget Impact Assessment:** To determine the impact of the policy, regulatory or legislative proposal on the National Budget or Medium-Term Expenditure Framework and, by implication, the fiscal balance and public debt. It is an assessment of financial implications of a submission from the Treasury's view or perspective.
- ii. **Socio-Economic Impact Assessment:** To determine the impact of the policy, regulatory or legislative proposal in terms of costs and benefits from the point of view of the entire economy and beyond the immediate impact on the budget.
- iii. **Distributional Impact Assessment:** To evaluate the effects of the policy, regulatory or legislative proposal on the various stakeholders receiving economic benefits or suffering costs.
- iv. **Risk Assessment:** To disclose the various factors that may affect the efficacy of the estimates of the financial and economic implications associated with the policy, regulatory or legislative proposal and to reduce the risk exposure through relevant clauses in the proposed new laws (Bills), protocols, treaties, conventions, agreements, policy proposals, information papers, statutory appointments and any referral for purposes of financial clearance.

Budget Impact Assessment

5.13 The Budget Impact Assessment of any submission shall involve assessing the projected fiscal costs and revenues associated with the proposed submission, to determine the fiscal sustainability impact on the National Budget or Medium-Term Expenditure Framework with the assessment done at market prices.

5.14 The financial analysis methodology used shall be based on the Discounted Cash Flow (DCF) method. The cash flow forecasts generated for this purpose should cover a period equivalent to the useful economic life of the physical assets needed to operationalize the submission (proposed law, policy etc., or for a period of not less than 10 years, and shall have four components:

- i. The financial benefits (receipts) plan defined to include projections on the cash inflows directly paid by users in terms of fees, penalties or payments for the goods or services arising out of the regulatory or policy interventions.
- ii. An investment expenditure plan defined to include of policy preparatory costs, initial investments, replacement costs for short-life assets/equipment, where specific Government action is required to operationalize the proposed legislation or policy.

- iii. The operating expenditure plan defined to include projections of all the costs to operate and maintain (O&M) the new or upgraded physical assets or service.
- iv. The financing plan shall be implied by the difference between the financial receipts and total expenditure forecasts and the task here shall be to identify the sources of financing that cover the net investment costs. This could include new Government budget allocations, savings from existing budgetary allocations, development partner grants and private sector grants.
- v. The investment and operating expenditure projections must be supported by an implementation plan or strategy.

5.15 Assessment of the fiscal sustainability of the submission shall be measured by the following key indicators:

- i. The financing gap in nominal terms;
- ii. The impact of the policy or legislative proposal on the development budget for at least two years and the source of the required financing;
- iii. The impact of the policy or legislative proposal on the recurrent budget for at least two years and the source of financing for the required resources; and
- iv. The financial feasibility of the policy or legislative proposal as implied by the financial net present value (NPV) and the financial internal rate of return (IRR) where applicable.

5.16 The applicable discount rate used shall be whichever is higher of the average weighted interest rate on public debt as reported in the published debt sustainability report or the Economic Opportunity Cost of Capital published as part of Uganda's national parameters (<http://national-parameters.go.ug>).

Economic Impact Assessment

5.17 The reviewer shall be required to determine the impact in terms of costs and benefits of the proposed policy or legislation from the point of view of the entire economy and, therefore, beyond the immediate impact of the submission on the budget considered under paragraphs 5.13 to 5.16.

5.18 In regard to economic and social benefits, this shall involve the assignment of monetary values to the overall and intermediate economic impacts or implications disclosed in the statements submitted by the MDAs.

5.19 This shall involve the use of shadow prices to the costs derived under sections 5.8-5.10 to reflect the social opportunity cost of goods and services, instead of prices observed in the market, which may be distorted.

5.20 For purposes of these guidelines, conversion of financial prices into economic prices shall be made using the Commodity Specific Conversion Factors (CSCFs) disseminated by Government as part of its national parameters. In addition, economic analysis shall require the recognition of both indirect benefits and costs that are not reflected in market prices, otherwise referred to as externalities.

5.21 The discount rate used in the economic impact assessment of submissions from MDAs shall be the Economic Opportunity Cost of Capital as derived from Uganda's database for national parameters (<http://national-parameters.go.ug>). The economic impact of the submission shall be measured by calculating the following indicators:

- i. The overall impact of the policy or legislative proposal on the economy as implied by the economic net present value (ENPV);
- ii. The economic rate of return (ERR); and
- iii. The B/C ratio, i.e. the ratio between discounted economic benefits and costs.

Distributional Impact Assessment

5.22 In line with Government commitment to ensuring that new legislation and policies are as equitable as possible and given that the costs and benefits of regulation seldom fall equally across all segments of society and the economy, the reviewer shall be required to establish how each of the identified or affected stakeholders gains or losses from the new legislation or policy.

5.23 This will be done by calculating or estimating the degree to which the proposal would impact some groups more than others. In particular, special attention may be given to groups which are particularly susceptible to disproportionate regulatory impact. These could be defined to include:

- i. Micro, Small and Medium-sized Enterprises (MSMEs), given that they are less able than large firms to absorb the costs of regulation as they cannot take advantage of economies of scale. Yet small businesses are vital to the economic growth and development of the Ugandan economy. Micro-businesses are also particularly important in Uganda's efforts to help lift people out of poverty.
- ii. Vulnerable groups (the poor, women, children, the elderly, the disabled, people living with HIV/AIDS etc.), given that adjustment for the poor is relatively more expensive than for people who are rich.
- iii. Regional development prospects, given that new policies and legislation may impact on regional development objectives or opportunities.
- iv. Civil society.
- v. Non-governmental organizations (NGOs).
- vi. The various stakeholders identified.

Risk Assessment

5.24 The reviewer shall be expected to disclose the various factors that may affect the efficacy of the estimates of the financial and economic implications associated with the proposed new legislation or policy. For the above purpose, the reviewer shall be expected to undertake a risk assessment of the submission. The risk assessment process shall be in line with the ISO3100 risk management guidelines defined to include risk identification, risk analysis and risk evaluation as summarized in Annex 5.

SECTION 6: ANNEXES

Annex 1: Template for Statement of Financial Implications

The purpose of the template is to enable the MDA to disclose the potential financial and economic implications associated with a new policy, legislation or proposed Government action or engagement submitted to Cabinet or Parliament.

An MDA will be required to prepare a Statement of Financial Implications if they are preparing principles of a new Bill/law for approval by Cabinet. Given that it is prepared very early on in the legislative cycle, secondary data may be used.

However, for all other policy or legislative proposals, including amendment of existing laws, MDAs will be expected to prepare a more comprehensive Statement of Financial Implications. At this stage, the policy or legislative proposal is deemed to have advanced within the preparation cycle and, therefore, more accurate primary and secondary data is used. The submission must be complemented by the Regulatory Impact Assessment Approval and MDA and PWG approvals.

Table 1: Statement of Financial Implications

SFI Summary	
Programme	
Vote	
Vote Code	
Title of Proposed Legislation/Policy	
Projected Financial Year of Commencement	
Estimated Cost to Government	Quote figures in UGX
Total Funding Requirement	
Available Funding	
Funding Gap	

Focal contact person	Preferably give the contact office in the MDA that prepared the document. This is intended to ease flow of information and allow for quick and reliable inquiries as need may arise.
Date of Submission	This should tally with the date of the letter submitting the statement to MoFPED.

Section 1. Introduction

1.1 Background

Provide a background to the legislative or policy proposal defined to include:

- i. Description of the problem the proposed Draft Bill or policy intends to address.
- ii. Objectives of the proposed law or policy.
- iii. Disclosure of alternatives considered and the justification for the decision to rely on the proposed legislation or policy to achieve the objectives as opposed to an alternative course of action.
- iv. Give a brief insight of the likely consequences if the proposed legislation or policy is not adopted.
- v. Disclosure of whether the sponsoring Agency has the mandate to spearhead the implementation of the policy or legislative proposal.

1.2 Relevance of the Proposed Legislation/Policy

Demonstrate how the proposed legislation contributes to the Government's development agenda by: (a) Linking the proposal to (i) The country's Vision, (ii) The NDP, (iii) The Manifesto of the ruling Government and (iv) The Programme Strategic Plan, through a description of the National Development Objective(s) that the proposed legislation or policy is expected to contribute to; (b) Linking the proposed legislation to programme-strategic objectives by describing the programme outcomes that the legislation or policy is expected to impact on.

1.3 Stakeholder Evaluation

- i. Identify the key stakeholders that are likely to be affected by the policy or legislative proposals, including direct and indirect beneficiaries.
- ii. Give a brief description of the likely impact on each of the stakeholders identified, whether positive or negative. Disclose the level of vulnerability of each of the identified stakeholders.
- iii. Disclose the relative potential of each of the stakeholders for the success of the proposed policy or legislation in terms of levels of power and interest, and also disclose the key strategies adopted for the management of each stakeholder.
- iv. Disclose the level of consultations undertaken, stating clearly the opinions of each of the stakeholder categories identified and provide evidence thereof as an attachment.

Section 2: Financial and Economic Implications Assessment Framework

2.1 Overall Economic Implication

This should be in relation to the development objective that the submission is expected to contribute to. Identify an indicator that will be used to measure success of the legislation or policy against the goal and briefly explain how information on this indicator shall be obtained. This could be through surveys or secondary data sources.

2.2 Intermediate Economic and Social Implications

These could be the eventual impacts, whether negative or positive, on stakeholders or society that the policy or legislative proposal is likely to lead to; and are reflected in terms of what people will be able to do better, faster or more efficiently, or what they could never do before but will now be able to do as a result of the new regulatory or policy initiative. There should be a relationship between the findings in this section and section 1.3 and will be essential in estimating the socio-economic impacts of the proposed policy or legislation.

For each economic or social impact identified, you will be required to define at least one indicator that will be used to measure performance against the relevant social or economic outcome; and briefly explain how information on this indicator(s) shall be obtained. This could be through surveys or secondary data sources.

2.3 Required Government Interventions

Describe the actions or investments that the Government is expected to undertake for the policy or legislation proposal to become effective in delivering the intended legislative or policy objects.

Provide an assessment of the institutional capacity to operationalize the policy or legislative proposals, clearly specifying current levels compared to the requirements and, therefore, the gaps in terms of interventions needed. These interventions should be those that are prescribed in the NDP framework.

Examples of the required Government interventions could be regulatory/institutional framework established, staff recruited, infrastructure to be built/renovated etc. Interventions are usually the immediate and concrete consequences of the implemented activities and resources used.

The findings of this section are expected to be useful in establishing the financial and economic costs of the policy and legislative proposals under consideration.

For each intervention identified, you will be required to define at least one indicator that will be used to measure performance against the relevant intervention and disclose how information on this indicator(s) shall be obtained. This could be through surveys or secondary data sources.

2.4 Key Activities

For each output defined in 2.3, identify and describe the major tasks that need to be carried out to deliver the planned results. For each activity identified, you will be required to define at least one indicator that will be used to measure performance of the legislation or policy against the work planned to be undertaken and briefly explain how information on this indicator(s) shall be obtained

2.5 Obligations of Non-Central Government Actors

Policy and legislative proposals are bound to impose obligations on non-Government actors, particularly the private sector, which is defined to include households, firms and public corporations. These could be in the form of compliance costs or charges or fees introduced as a result of the policy or legislative proposal.

This section is important in determining the potential for non-tax revenue (NTR) generation due to Government, and the policy or regulatory burden on stakeholders.

2.6 Economic and Financial Implications Matrix

Hierarchy of Economic and Financial Implications	Indicator	Means of Verification	Baseline	Target(s)	Assumptions
1. Overall Economic Implication					
1.1					
2. Intermediate Economic Implications					
2.1					
2.2					
2.3					
3. Required Government Actions/ Interventions					
3.1					
3.2					
3.3					
4. Obligations on Other Stakeholders					
4.1					
4.2					
4.3					
5. Key Activities					
5.1					
5.2					
5.3					

In addition to the detailed description of the logical relationship between the various levels of financial and economic implications for the proposed legislation or policy, the statement shall include a matrix for purposes of evaluating the proposed regulation over time as summarized in Section 2.6 above. This shall involve the identification of measurable indicators for every implication/impact, setting targets to be achieved for each indicator and disclosure of the baseline level against which the target is to be measured.

It is also a requirement that each indicator is supported by a disclosure of the sources of information that will be used to verify performance and the assumptions underlying the attainment of each objective. A sample matrix is as reflected above.

Section 3: Estimated Cost and Activity Plan

3.1 Cost Estimation for Government Action

Give an estimate of the total legislation or policy cost and disaggregate by year for each activity or intervention described in section 2.4. The legislation or policy period should correspond to the period it takes to have the activity in place and ready to be operated.

	Year 1	Year 2	Year 3	Year 4
Govt. Intervention 1 Activity 1 Activity ... Activity n				
Govt. Intervention 2 Activity 1 Activity ... Activity n				
Govt. Intervention 1 Activity 1 Activity ... Activity n				
Total Cost				

3.2 Cost Estimation for Stakeholders

Fees/tariffs/user charges
Compliance costs

Estimation of projected revenue

Revenue Source	Year 1	Year 2	Year n	Total Revenue
Revenue source 1				
Revenue source 2				

Section 4: Proposed Funding

This section gives a brief description of the projected financial implications and sources of funding for the implementation of the proposed policy/legislation in terms of availability of funding as illustrated in the table below.

Source	UGX Bil- lion	Y1	Y2	Yn	Comments
GoU – New Resources					
GoU savings within the MDA MTEF to support the implementation of the proposed legislation or policy (specify the source in terms of programme, intervention, budget output and item)					

Development Partner (Grant Financing)					
Development Partner (Loan Financing)					
Private Sector					
Total Funding					

Section 5: Attachments

Please attach to this submission minutes of meetings at Vote and PWG levels in support of the approval of the submitted statement.

Minutes of consultative meetings with stakeholders

Copy of the approved Regulatory Impact Assessment

Annex 2: Guidance Note on Stakeholder Analysis

A. Introduction

This guidance note is intended to help the MDAs and the reviewers at the Ministry of Finance, Planning and Economic Development undertake stakeholder analysis for purposes of establishing the outcomes or impacts of policy and legislative proposals.

For purposes of these guidelines, the stakeholder analysis will be used to:

- i. Identify stakeholders.
- ii. Determine the direct or indirect socio-economic costs and benefits and whether they are equitably distributed across the different stakeholders.
- iii. Identify and establish the roles of each of the players in the proposed legislation or policy and get an indication of the compliance costs associated with the proposed policy or regulation.

In conducting stakeholder analysis for the proposed policy or legislation, the MDA shall be expected to build on the stakeholder analysis undertaken as part of the Regulatory Impact Assessment required by the Cabinet Secretariat.

B. Identification of Stakeholders

A stakeholder is an individual, group or organization that is actively involved directly or indirectly in a policy or Bill; and whose interests may be affected either positively or negatively by the implementation and outcome of it. Stakeholders are all those who need to be considered in achieving particular goals and whose participation and support are crucial to its success.

During stakeholder analysis, it is important to ask the following questions to guide the identification of the relevant stakeholders:

- Who are the stakeholders, with regard to the policy or Bill?
- What are their interests, views, or objectives?
- How are they affected?
- What resources are at the stakeholders' disposal for purposes of complying with the requirements of the law/policy?

C. Analysis of Stakeholders to Establish Direct and Indirect Socio-economic Costs and Benefits

Having identified and profiled all the stakeholders, the next step is to determine how each of the stakeholders shall be affected and, therefore, get an idea of the likely financial and socio-economic impacts of the policy or legislative proposal. The findings of this analysis are helpful in populating sections 2.2 to 2.5 of Annexes 1.

For purposes of these guidelines, the findings on stakeholder analysis shall be accompanied by a summary matrix as structured in Table 2 based on the sectors of the economy.

Table 2: Identification of Perceived Impacts on Stakeholders and the Economy

Stakeholder Group/Category	Area of Concern⁵	Perceived Positive Impacts⁶	Perceived Negative Impacts⁷	Proposed Mitigation Measures⁸	Available Resources⁹
Fiscal Sector					
Ministry of Finance					
URA					
Sponsoring Agency					
NEMA					
.....					
Real Sector					
Foreign Investors					
Local Investors					
SMEs					
Service Sectors					
Foreign Investors					
Local Investors					
SMEs					
Service Sector Employees					
Agriculture Sector					
Commercial Farmers					
Peasant Farmers					

⁵What are their interests and objectives?⁶How will the day-to-day operations/strategic objectives/livelihood of the stakeholder be positively affected?⁷How will the day-to-day operations/strategic objectives/livelihood of the stakeholder be negatively affected?⁸What are the agreed measures to address the adverse effects?⁹Resources may include human resources, equipment, funds, and technology, among others.

Stakeholder Group/Category	Area of Concern⁵	Perceived Positive Impacts⁶	Perceived Negative Impacts⁷	Proposed Mitigation Measures⁸	Available Resources⁹
Input Suppliers					
Labor Market					
Financial Sector					
Banking Financial Institutions					
Non-Bank Financial Institutions					
Micro finance institutions					
External Sector					
Exporters					
Importers					
Vulnerable Groups					
Disabled					
Elderly					
Women					
Youth					

Annex 3: Guidance Note on Budgetary Impact Assessment

The purpose of this template is to enable the Budget Analyst to disclose the estimated financial costs and revenues associated with the proposed policy and legislation to determine the financial sustainability impact on the National Budget or Medium-Term Expenditure Framework. The analysis helps to ascertain the ability of the proposed policy/legislation to achieve its intended objectives without being constrained by funding gaps (sustainability) as well as establishing baseline information for undertaking economic, distributional and risk analysis of the proposed policy/legislation.

SECTION 1. METHODOLOGY

- i. The financial analysis methodology should be based on the Discounted Cash Flow (DCF) method covering the cash flow forecasts for the period equivalent to the useful economic life of the physical assets needed to operationalize the proposed policy/legislation.
- ii. The construction of the cash flow statement is generally preceded by the organization of variables and data into the financial plan consisting of three components: the investment plan, the operating plan (operating costs and revenues) and the financing plan as elaborated below and summarized in Table 3 below.
 - a) Component 1 – The Financial Receipts (Benefits) Plan: This includes projections of the cash inflows directly paid by users in terms of fees, penalties, or payments for the goods or services arising out of the regulatory or policy intervention.
 - b) Component 2 – Investment Expenditure Plan: This indicates the projections of policy preparatory costs, initial investments, replacement costs for short-life assets/ equipment, where specific Government action is required to operationalize the proposed legislation or policy, as summarized in Table 3 below.
 - c) Component 3 – Operating Expenditure Plan: This should include projections of all the costs to operate and maintain (O&M) the new or upgraded physical assets or services arising out of the new policy/legislation.
 - d) Component 4 – The Financing Plan: This is the outlay of how the initial investments as well as operational costs of the proposed policy or legislation are to be funded.

Table 3: Budgetary Impact Assessment

	Year	Total	Y1	Y2	Y3	Y4	Yn	
	Variable	Indicators						
Component 1: The financial receipts (benefits)								
	Inflows							
1	User Fees							
2	Licenses							
3	Fines/penalties							
n								
	Total							
Component 2: Investment expenditure Plan								
	Variable	Indicators						
2	Preparatory Costs							
2.1	Consultative Workshops	e.g. No of Work-shops						
2.2	Travel Inland	e.g. No of people						
2.3	Travel Abroad (benchmarking)	e.g. No of people						
2.4	Printing	e.g. No						
...	...							
3	Fixed Assets							
3.1	Equipment	e.g. no						
3.2	Land	E.g.						
3.3	Buildings	Square meters						
...	...							
4	Others							
5	Total = (1+3+4)							
Component 3: Operating Plan								
	Variable	Indicators						
1	Operational costs (Staff emoluments, enforcement costs, software Licenses, rent, etc.)							
2	Capacity building							
3	Operation and maintenance							
4	Etc.							
4	Total							
Component 4: The Financing Plan								
	Variable	Indicators						
1	GoU Contribution							
2	External							

	Loans							
	Grants							
3	Private Sector Contributions							
4	Others							
6								
7	Total= (1+2+3+4+5+6)							

SECTION 2: ASSESSMENT OF FINANCIAL SUSTAINABILITY

Following the completion of the Investment Plan, Operating Plan (Operating Expenditure and Revenue Plan) and Financing Plan, the cash flow statement and financial sustainability can be measured by aggregating the three plans as illustrated in the Table 4 below:

Table 4: Assessment of Financial Sustainability

	Year	Total	Y1	Y2	Y3	Y4	Yn	Notes
1	Total inflows (additional resources available in the MTEF)							
2	Total outflows							
	Investment costs							
	Operating costs							
3	Financing gap in nominal terms= (1-2)							

- i. The financial cost-benefit ratio (CBR) –This criterion is applicable to all policies and legislative proposals.
- ii. Financial net present value (NPV).
- iii. Financial internal rate of return (IRR) where applicable.

Annex 4: Guidance Note on Social and Economic Impact Assessment

Socio-economic impact assessment helps one understand the potential range of impacts of a proposed policy/legislation, and the likely responses of those impacted if the change occurs. To facilitate this kind of analysis, Government developed national parameters and Commodity Specific Conversion Factors (CSCF). Further, the Cabinet Secretariat has issued guidance for socio-economic impact analysis as part of the Regulatory Impact Assessment Guidelines. This guidance note, therefore, emphasizes how to undertake socio-economic impact assessment in policy formulation.

The underlying principle for socio-economic analysis and/or appraisal is the use of economic prices to reflect the true value of a proposed piece of legislation or policy to society. Market prices are not used because of the inherent distortions, which include subsidies, taxes and fiscal levies such as duties on imports and other indirect taxes. In addition, market prices do not reflect externalities such as air pollution and time savings.

In situations where the prices of goods and services are determined by a perfectly competitive market environment, the market prices will reflect the economic price. Under these conditions, the financial measures can be used as proxies for the economic measures. However, in practice, this is not the case, and thus the need to use conversion factors to assign values as a more realistic way of measuring economic benefits and costs.

For purposes of these guidelines, an Economic Resource Statement (ERS) approach is adopted

and this entails transforming net financial cash flows into net economic benefits by:

- i. Correcting market prices for fiscal distortions through adjusting input prices for taxes and output prices (tariffs) for levies and subsidies;
- ii. Using conversion factors to transform adjusted market prices into shadow/economic prices;
- iii. Evaluating non-market impacts; and
- iv. Correcting for externalities.

For purposes of these guidelines, the Commodity Specific Conversion Factors (CSCF), the economic opportunity cost of capital, and the foreign exchange premium, among others, as given in Uganda's database for national parameters will be applied and can be accessed at <http://national-parameters.go.ug>.

Non-Market Impacts and Correction for Externalities

Impacts generated on users due to the use of a new or improved good or service but for which a market value is not available, should be included as proposed legislation or policy direct benefits. In addition, any cost or benefit that spills over from the proposed legislation or policy towards other parties without monetary compensation, such as the environmental effects, should be included. This can be done through the following steps:

- i. **Identification of Economic Costs and Benefits:** Only those benefits or costs that can clearly be traced back as an effect of the proposed legislation or policy should be considered relevant to the economic analysis.
- ii. **Valuation of Economic Costs:** The quantification of direct costs requires adequately estimating the physical requirements of each type of input used in the implementation of the proposed legislation or policy as well as the operational and maintenance cost.
- iii. **Relevant Economic Benefits:** In keeping with international practice, a broader interpretation is adopted in these guidelines by defining economic benefit as any increase in the welfare of society such as reducing the incidence of maternal deaths, reducing the number of fatal road accidents, increasing access to clean water etc. Proposed legislation or policy benefits can, therefore, exhibit a number of forms, which can be valued, measured and/or described in different ways, including:
 - Direct impacts on efficiency of the sponsoring agency through lower operating and maintenance costs, which results in monetary savings.
 - Contributions to the achievement of outcomes or intermediate outcomes sought by Government through the provision of public services and leading to gains in well-being for the users of these services.
 - Positive externalities or spillover benefits which accrue to third parties, including society, rather than to the operating entity or intended beneficiaries of the proposed legislation or policy.
- iv. **Valuing Economic Benefits:** For any proposed legislation or policy, the likely demand for the goods or services from the proposed legislation or policy should be the starting point for assigning values to benefits based on the market prices.

For proposed legislation or policy that is undertaken with the objective of supplying existing goods or services more efficiently, the benefits can be estimated in terms of savings arising out of the “with and without” proposed legislation or policy scenarios.

In the case of non-market services, say with regard to social services, the intangible effects can be applied where there are no directly observable market prices as an alternative for valuing benefits. These could include estimating the willingness to pay (WTP) for the proposed legislation or policy benefits. WTP is the maximum payment that a beneficiary would be willing to give up in order to receive a public service and it is, therefore, a measure of the ‘utility’ that a consumer expects to obtain.

Examples of (positive) non-market impacts are: savings in travel time; increased life expectancy or quality of life; prevention of fatalities, injuries or accidents; improvement of landscape; noise reduction; increased resilience to current and future climate change; and reduced vulnerability and risk.

In summary, the steps required to carry out economic analysis are as follows:

- i. Estimate the CSCF for all the prices of inputs and outputs.
- ii. Convert the variables in the financial cash flow statement into economic resource flows by multiplying them with the CSCFs.
- iii. Identify the indirect benefits and costs attributed to the proposed legislation or policy and quantify them.
- iv. Integrate the non-market impacts and externalities into the Economic Resource Flow Statement.
- v. Discount the net economic resource by the economic opportunity cost of capital to ascertain the economic net present value of the proposed legislation or policy.

Table 5: Sector-Specific Examples of Identifying Economic Benefits and Costs

Sector	Economic Benefits	Economic Costs
Roads	<ul style="list-style-type: none"> • Savings in vehicle operating costs • Savings in time for existing and new road users • Reductions in the cost of accidents. Accident costs include damage to vehicles, medical costs and costs related to loss of life and injury • Savings in road maintenance costs. • Improved access to social services and markets 	<p>Negative environmental externalities:</p> <ul style="list-style-type: none"> • Air pollution • Increased noise and vibration • Visual impact on landscape • Pollution of water courses from run-off • Damage to heritage sites • Social dislocation from resettlement and community severance • Proposed legislation or policy that generate additional traffic may increase overall CO2 emissions with negative impacts globally on climate change.

Solid Waste Management	<p>Health improvements from removal of waste. These can be valued in terms of:</p> <ul style="list-style-type: none"> ● Reductions in medical costs and lower income losses from absences from work. ● Enhanced urban environment. Forecast changes in land values can serve as a proxy measure of improvements in urban amenity. ● Energy recovery and savings in use of environmentally damaging energy sources. 	<p>Negative environmental externalities in the locality of the treatment or disposal facility:</p> <ul style="list-style-type: none"> ● Damage to health due to air, water or soil pollution ● Water and soil contamination ● Negative impacts on landscape ● Additional traffic
Water Supply and Waste water Treatment	<ul style="list-style-type: none"> ● The value of the additional water supplied and/or treated compared to the situation without the proposed legislation or policy (where there may be considerable suppressed demand if water pressure is low or there are supply interruptions). ● The economic value of the water will generally be higher than the financial price charged to users, which can be seen as representing the lower bound of benefits. The difference represents consumer surplus in the case of households and producer surplus in the case of enterprises. 	<p>Negative environmental externalities arise from the construction of facilities and from the use of scarce water resources in meeting new demands.</p>

Sector	Economic Benefits	Economic Costs
	<ul style="list-style-type: none"> • Consumer surplus can be measured by making estimates of willingness to pay (WTP) for households by reference to the cost of the next best alternative sources being used, for example, water from tankers, bottled drinking water and home purification. In the case of sanitation, use of septic tanks can be more expensive than connection to mains sewers and the difference in costs can be a measure of consumer surplus. • The value of time spent fetching water from wells or standpipes is another measure of WTP. Care must be taken not to double count or exaggerate benefits when using consumer surplus measures. • Enhanced property values in areas with piped wastewater collection systems can be a proxy measure of benefits. Care must be taken not to double count benefits estimated by other means when using property values as a proxy. <p>For supply of water to industry or agriculture,</p> <ul style="list-style-type: none"> • It is possible to estimate the added value of the additional output that is attributable to increased water availability. It is, however, not easy to do this and estimates need to be scrutinized carefully for the realism of assumptions. • Health benefits may arise from reducing diseases caused by contaminated water supplies, poor sanitation arrangements or discharge of untreated wastewater into water courses. These can be measured in terms of reduced treatment costs plus the lower value of income lost due to days off work. • Exploitation of more suitable water resources or leakage reduction programmes may preserve water resources for other alternative uses. Treatment of wastewater before discharge into water courses protects or improves water. 	

Sector	Economic Benefits	Economic Costs
Electric Power (and Other Forms of Energy) - Distribution and Production	<ul style="list-style-type: none"> • The monetary value of the additional energy supplied compared to the situation without the proposed legislation or policy (where there may be considerable suppressed demand if there are frequent electricity blackouts or brownouts). • The economic value of the energy will generally be higher than the price charged - this difference represents consumer surplus in the case of households and producer surplus in the case of enterprises. • This can be measured by making estimates of willingness to pay (WTP) for households by reference to the cost of the next best alternative sources being used, for example, if households are using generators to meet supply shortages. Similarly, if businesses are using their own generators this cost can be a measure of producer surplus. There needs to be strong evidence of consumers' willingness to pay more. • Benefits in terms of reduced use of environmentally damaging energy sources through the use of renewable energy sources or by means of energy-saving proposed legislation or policy. 	<ul style="list-style-type: none"> • Negative environmental externalities in the locality of the generation or distribution facility from construction and operation: • Air and noise pollution • Negative visual impacts on landscape • Additional traffic • Wider negative externalities, from increasing energy production using fossil fuels and adding to global CO₂ emissions
Education	<ul style="list-style-type: none"> • Improved employability in more productive jobs and increased life-time earning potential of pupils, students and trainees. • There is much quantitative evidence on the personal returns to education in terms of higher incomes which tend to increase with educational level. • Many diffuse but important benefits to society from an educated population which are more difficult to measure. 	No obvious negative externalities apart from local traffic effects. As evidence, residential property values tend to be higher the closer an economic agent is to educational establishments
Health	<ul style="list-style-type: none"> • Savings in future health costs from timely and appropriate treatment. • Savings in lost output (and income) because of the lower number of working days lost for patients and their families. • Reduction in suffering for patients and their families – increased life expectancy and improved quality of life • Deaths prevented, which can be valued using the value of a statistical life. 	No obvious negative externalities apart from local traffic effects.

Annex 5: Guidance note on Risk Assessment

A risk is defined as a future or unforeseen event or development which, if it happens, will undermine or enhance the ability to achieve desired objectives. The rationale for subjecting a policy or legislative proposal to risk assessment is based on the need to evaluate the chances that the planned policy outcomes will not materialize. This then provides a basis for identifying the factors that might be responsible, so as to enable the development of strategies to limit the occurrence of these factors and prevent adverse outcomes.

The Budgetary Impact and Socio-Economic Impact Assessments recommended in section 5 of this Guideline involves the estimation of key financial and socio-economic variables that are critical in assessing the impact of the policy or legislative proposal on the economy. However, due to the ever-changing economic and technical environments, there are variables which cannot be accurately predicted, thus leading to uncertainty in the financial and socio-economic modelling process.

This guidance note adopts the ISO 3000 standard, which defines risk assessment as the overall process of risk identification, risk analysis, risk evaluation, and developing a risk mitigation plan.

Risk identification

The MDA and the reviewers shall identify the relevant risks by examining the assumptions underlying the hierarchy of economic and financial implications as documented in economic and financial implications matrix under Section 2.6 of Table 1.

	1	2	3	4
	Hierarchy of Economic and Financial Implications	Indicators	Means of Verification	Assumptions
1	Overall Economic Implication:			
1.1	Contribute to Human Capital Development through Universal Primary Education			
2	Intermediate Economic Implications			
2.1	Increased Enrollment			Adequate secondary school and tertiary institution infrastructure to absorb primary school leavers
2.2	Increased Literacy Rates			

3	Government Interventions			
3.1	Construction of one Primary School per sub-county			Communities sensitized on value of education, relevant scholastic materials availed, teachers re-nu-ation attractive
3.2	Construction of Teacher Houses			
3.3	Construction of additional Primary Teacher Colleges			
4	Key Activities			
4.1	Identification of suitable locations and land			Availability of land, no encroachment on land, adequate funds made available in time
4.2	Designs of key infrastructure			
4.3	Procurement of contractors			

Figure 2: Sample Matrix of Economic and Financial Implication

The preparation of a matrix of economic and financial implications is an iterative and logical process which starts with the description of the policy or legislative proposal, followed by logic of occurrence of the economic and financial implications (top-down), and the assumptions (bottom-up). These are followed by the indicators and then sources of verification (working across). The sequence of completion as illustrated in Figure 2.

Assumptions

Assumptions are, therefore, defined as the key factors outside the direct control of the MDA, which must hold true if the financial or economic implication of the policy or legislative proposal is to materialize.

The risks associated with the policy or legislative proposal are identified through derivation of the factors that could prevent the assumptions underlying the economic and financial implications from holding true. This process involves the conversion of assumptions to risks using the IF-AND-THEN hypothesis.

A typical example using Figure 2 illustrates the case of the Universal Primary Education policy: If the procurement process for the contractor is completed, and resources made available in time with no encroachment on identified land, then the key infrastructure for the project will be delivered on time. The key assumptions for the delivery of infrastructure are availability of resources, no encroachment on land, and competent contractors in place.

Risk Analysis

Risk analysis is the successor phase in the assessment process, following the mapping of risks to the assumptions during the phase of risk identification. The purpose of risk analysis is to examine (using either qualitative or quantitative means) the nature of the risks that have been identified. Risk analysis provides an input to risk evaluation and should, therefore, consider the following key factors:

- The likelihood/probability of the risks occurring;
- The probability of a risk event occurring can be objectively estimated using various means, e.g. evaluating similar previous projects and other comparative techniques; and
- The impact of the risk.

The reviewer shall be required to make a precise assessment of the scope and magnitude of the risk event by reviewing historical trends, using observational techniques and sensitivity analysis, among others.

Risk analysis helps the reviewer to profile or rank the various risks facing the project. This manual adopts both a quantitative and a qualitative approach to risk analysis.

Quantitative Analysis

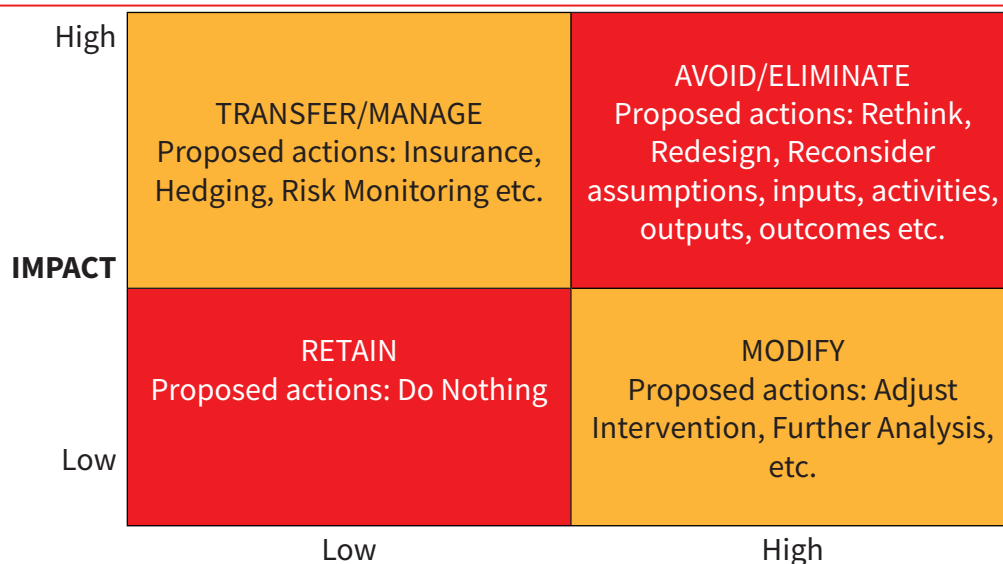
In respect to quantitative risk analysis, this manual proposes three techniques which may be applied to assess the impact and the likelihood of occurrence of project risks (variables) when examining the financial and economic viability of projects. These are defined to include:

(i) Sensitivity Analysis; (ii) Scenario Analysis; and (iii) Monte Carlo Analysis.

Risk Evaluation

The purpose of risk evaluation is to determine the treatment of the risk based on the outcome of the analysis. With regard to the Certificate of Financial Implications, risk evaluation should support the determination of whether the risk conforms to Government's risk appetite in relation to the prevailing socio-economic conditions and resource availability. This determination informs actions that can viably be undertaken by Government.

As a starting point, you should locate the analyzed risk within the risk treatment matrix below. This will form a basis for providing broad prescriptions on which types of actions to take to mitigate the risk, i.e. (i) Avoid/Eliminate; (ii) Transfer/Manage; (iii) Retain; and (iv) Modify.



LIKELIHOOD / PROBABILITY
Figure 3: Risk Treatment Matrix

Following the above categorization, the final step of the evaluation will require you to make recommendations on the specific actions that should be taken to mitigate specific risks, for inclusion in the Integrated Risk Assessment Template.

	Hierarchy of Economic and Financial Implications	Assumptions	Risk	Impact if Risk Occurs	Likelihood	Mitigation
1	Overall Economic Implication:					
1.1	Contribute to Human Capital Development through Universal Primary Education					
2	Intermediate Economic Implications					
2.1	Increased Enrollment	Adequate Secondary School infrastructure to absorb Primary School Leavers	Failure to progress and loss of knowledge learned at primary level	High	Low	Integrated planning for all levels of education

2.2	Increased Literacy Rates	Adequate tertiary Institution Infrastructure to absorb Primary School leavers	Limited impact on productivity and livelihood	High	Low	
3	Government Interventions					
3.1	Construction of one primary school per sub-county	Communities sensitized on value of education	Parents not sending children to the new schools	High	Low	Establish a budget dedicated to raising awareness
3.2	Construction of Teacher Houses	Relevant scholastic materials and basic necessities availed	Teacher absenteeism	High	Low	Establish a strategy for increasing teacher pay
3.3	Construction of additional Primary Teacher Colleges	Teachers remuneration attractive	Low school completion rates	High	Low	Avail basic requirements to facilitate school attendance
4	Key Activities					
4.1	Identification of suitable locations and land	Availability of land	Delays in release of funds	High	Low	Comprehensive workplans
4.2	Designs of key infrastructure	No encroachment on land	Delays in handing over sites to contractors	High	Low	Provide physical security to sites
4.3	Procurement of contractors	Adequate funds availed in time	Cost escalations	High	Low	

Figure 4: Risk Assessment Matrix for Certificate of Financial Implications

Annex 6: Template for Reviewer's Report

The purpose of this Template is to propose the structure to be followed by the reviewer in their submission to the Regulatory Fiscal Assessment Committee at Ministry of Finance, Planning and Economic Development to inform decision making on either the Approval or deferment of the submissions as Summarized in the table below:

Table 6: Reviewer's Template for Consideration of the Submission

S/N	Section	Observations
1.	Approval status	The submission should have evidence that the proposed policy/legislation was approved by the Regulatory Fiscal Assessment Committees within the sponsoring MDA and the Program Working Group.
2.	Introduction	<ol style="list-style-type: none"> 1. The submission of the proposed Policy or Bill must have an introduction clearly stating the; <ol style="list-style-type: none"> i. Background (description of the policy) with specific objectives, clear outputs and outcomes in line with the Programmatic Budgeting modality to achieve the overall goal. ii. Relevance of the Policy or Bill to the National Development Agenda. There must be proper justification to the proposed policy or bill after thorough review of the existing structural, institutional and legal framework. iii. Problem Statement of the Policy or Bill whereby; <ul style="list-style-type: none"> <input type="checkbox"/> The submission should clearly identify the nature of the public problem to be addressed, indicate the affected stakeholders by sex, vulnerability and location, the gaps in the existing policies or legal framework. <input type="checkbox"/> The problem ought to be measurable or quantifiable with proper description of the characteristics, causes as well as the magnitude of the problem.

3.	Institutional Framework	<p>The submission should indicate how the proposed policy or legislation will be implemented in cognizance of the following;</p> <ol style="list-style-type: none"> 1. Mandate and suitability; Whether the implementing Agency has the mandate to implement the policy and indicate clear interventions by the various stakeholders to operationalize the Policy or Bill; 2. Institutional capacity; adequate human resources with appropriate skills; and sufficient equipment, physical facilities and other support services to implement the proposed policy. 3. Monitoring: There must be a clear monitoring framework which primarily aims at providing management and stakeholders information regarding the progress of work and identifying progress towards results.
S/N	Section	Observations
	Funding and Budgetary implications	<p>The findings of the submission should;</p> <ol style="list-style-type: none"> 1. Clearly state the total required financial resources to implement the policy or legislation over the period. 2. Clearly indicate the direct costs in terms of committed resources within the MDA's MTEF for policy implementation and other consequential indirect costs associated with policy implementation. 3. The submission should show clearly indicate the sources of financing the proposed policy or legislation; and demonstrate that it will not result in shortfalls on implementation of existing interventions/priorities 4. The findings of the submission should clearly indicate whether the policy has costed interventions over the policy implementation period. This should include the operating expenditure plan with projections of all the costs to operate and maintain (O&M) for the case of projects within the proposal. 5. The submission should have indicated whether the Policy or law will contribute to revenue generation. 6. The financial implications shall be derived from key indicators which include a) the financing gap in nominal terms; b) the Financial Cost Benefit Ratios (CBR); c) Net Present Value (NPV); and d) Internal Rate of Return (IRR) where applicable.

	Socio-Economic Impact Assessment	<ol style="list-style-type: none"> 1. The submission should indicate the impact in terms of direct and indirect costs and benefits of the proposed policy or legislation to the economy. 2. There must be indication of quantifiable economic gains or losses when the problem is solved. 3. The economic implications shall be measured by the Economic Net Present Value (ENPV), Economic Internal Rate of Return (EIRR) and the Benefit/Cost ration (B/C) where applicable.
	Distribution Impact Assessment	<p>The submission should specify the benefits and cost from the proposed legislation or policy to various stakeholders who include among others the following;</p> <ol style="list-style-type: none"> 1. The General population (Men and Women) 2. The Businesses in the Economy 3. The vulnerable groups (Children, Youth, PWDs, Elderly and Ethnic minority) 4. Different regions of the Country (Spatial development)
	Risk Assessment	<p>The submission should identify or indicate;</p> <ol style="list-style-type: none"> 1. possible risks associated with the policy or legislation implementation. 2. whether there will arise Contingent Liabilities to Government. 3. the efficacy and/or accuracy of the estimates of the financial and Economic implications associated with the proposed policy or legislation; cognizance of the existing laws, protocols, treaties, agreements, among others.
	Recommendations	<p>In view of the above findings, the submission shall be subjected to clear recommendations below;</p> <ol style="list-style-type: none"> 1. Approval: If the submission satisfies the above sections 2. Defer Approval: If the submission falls short of the relevant information to inform appropriate decision-making on the proposed policy or legislation, 3. Conditional Approval: If critical areas have been identified for further redress by MDA before onward submission to Cabinet. In case it requires Cabinet's pronouncement on this matter.

Annex 7: Template for Certificate of Financial Implications

Purpose of the template: To enable Cabinet and Parliament confirm that the financial implications of the proposed policy or legislation, the source of funding and availability of resources within the Government's future expenditure framework. The template will be structured as illustrated below;

Template for Certificate of Financial Implications



CERTIFICATE OF FINANCIAL IMPLICATIONS

(Made under S.74 of the Public Finance and Management Act, CAP 171)

THIS IS TO CERTIFY that the Bill, 20... has been reviewed in accordance with S.74 of the Public Finance and Management Act, CAP 171.

I wish to report as follows:

- a) That the Bill has the following Overall Objective:.....
- b) Objects of the Bill:.....
- c) Specific outputs and outcomes of the Bill:.....
- d) Alignment to National Development Policies and Programmes:.....
- e) Funding and Budgetary Implications:.....
- f) Expected savings and/or revenue to Government:.....
- g) Impact of the Bill on the Economy:.....

Submitted to Parliament under my hand this day of

.....

MINISTER FOR FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

Received by:.....

Date:.....

Annex 8: Template for Letter of Financial Clearance

Purpose of the template: To enable Cabinet confirm the financial implications of the proposed policy or legislation, the source of funding and availability of resources within Government's expenditure framework. The template will be structured as illustrated below;

Template for Letter of Financial Implications

1. **Title:** Indicating the Name/Subject of the proposed policy or legislation;
2. **Introduction:** Summary background to the proposed policy or legislation;
3. **Purpose:** The overall objective of the proposed policy or legislation in line with the national legal (constitution) and policy framework as well as the development agenda.
4. **Implications of the proposed bill:** Estimated Financial and Socio-Economic costs and benefits arising out of implementation of the proposed policy or legislation;
5. **Financing:** Sources of financing the implementation of the proposed policy or legislation and implications on the overall Government expenditure framework.
6. **Conclusion:** Overall recommendation regarding the financial implications of the proposed policy or legislation.

Signature: Duly endorsed by the PS/ST

Annex 9: Checklist for Requirements for Issuance of Financial Clearance

	Principles of a Bill	Bill	Policy	Loans/ Pre-financing proposal	MoU	Board Appointment	Treaties/ Conventions/ Protocols/ Agreements	Information Papers	University Programmes	Private Member's Bill
Approval by MDA (Minutes)	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Approval by PWG (Minutes)	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Regulatory Impact Assessment (RIA) approved by Office of the President (Cabinet Secretariat)	✓	✓	✓	✓	✓	✓	✓	✓		
Copy of Project Appraisal Document (PAD)	✓	✓	✓	✓	✓	✓	✓	✓		
Minute Extract of Cabinet	✓	✓	✓	✓	✓	✓	✓	✓		
Board Charter	✓	✓	✓	✓	✓	✓	✓	✓		
Copy of Document to be submitted to Cabinet/ NCHE for approval	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Statement of Financial Implications	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

Plot 2-8 Apollo Kaggwa Road, P.O.Box 8147
Kampala, Uganda