



**INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA**

**EVALUATION OF THE ECONOMIC
IMPACTS OF THE COVID-19 POLICY
INITIATIVES**

MAY 2022

EVALUATION OF THE ECONOMIC IMPACTS OF THE COVID-19 POLICY INITIATIVES

Purpose

This publication has been prepared to support the activities of the accountants in the public sector in assessing Covid-19 Policy Initiatives using IFAC's Intervention Assessment Tool

1.0 Introduction

The COVID-19 pandemic presents one of the largest challenges to governments seen in the current century. Uganda like many other countries around the globe has had to respond to the pandemic with unprecedented measures. The effects of these measures will be felt on government finances both immediately and in the long-term.

The pandemic led governments to deploy significant interventions to support individuals, businesses, the monetary system, and specific sectors, including healthcare. In view of the unprecedented scale of these interventions there is an urgent need to understand their full current and ongoing impacts on public finances.

To help governments and other interested stakeholders understand the impact of government interventions at different points in time, the International Federation of Accountants (IFAC) and the Zurich University of Applied Sciences (ZHAW), in partnership with the International Public Sector Accounting Standards Board (IPSASB), created the COVID-19 Intervention Assessment Tool. The Tool helps governments understand the accrual impact of interventions and can be used independently of any given jurisdiction's public sector accounting basis.

2.0 Economic Impact of the Pandemic

The pandemic, has triggered unprecedented repercussions for the global economy. Together with the containment measures, it has created supply-side disruptions and depressed aggregate demand. Businesses, large and small all suffered on account of supply-chain disruptions. Households faced falling income and rising unemployment.

The loss of income, and rising precautionary savings have all led to a broad-based reduction in private investment and consumption, causing a demand-deficient economic contraction.

The pandemic could have long-lasting effects, including a permanent potential output loss owing to impaired human capital (from mortality and sustained unemployment) and reduced productivity (from widespread bankruptcies).

Some of the main effects on Uganda's economy included:

- (a) Production disruptions resulting from supply contractions
- (b) Domestic and global demand contraction
- (c) Reduced sales/profits
- (d) Closure of facilities/shops
- (e) Liquidation of companies
- (f) Delays in planned business expansions
- (g) Sustained unemployment resulting from dismissal of staff/reduction in salaries
- (h) Inability to access/obtain financing
- (i) Major shortfalls in domestic revenue collection - fiscal deficits resulting from increased healthcare and social welfare spending and reduced fiscal revenue
- (j) Increasing public debt - with major shortfalls in revenue collection, the government has resorted to borrowing to cover its fiscal deficit for the previous FY.
- (k) Balance of Payment (BoP) difficulties caused by increased capital outflows, exchange rate depreciation and impact on net exports.

3.0 Policy Measures to address the Impact of the COVID-19 Pandemic

In order to limit the human and economic impact of the COVID-19 pandemic the government instituted containment measures such as social distancing requirements, lockdowns, quarantines, massive testing and border controls.

In addition, the government also implemented economic stimulus measures, through a combination of monetary and fiscal policy, in the following ways:

- (a) **Fiscal policy** - in the short term, aim to reduce the impact on the most exposed households and companies and preserve economic relations and in the long term, aim to support aggregate demand for a faster recovery of the economy and employment.

Among others, the fiscal support has included the following measures:

- i. Additional funding to the health sector, including for medical equipment, masks, test kits, and vaccines;
- ii. Support to households, including food to the vulnerable in the first lockdown and transfers in the second one;
- iii. Support to businesses, including in the form of waived interest on tax arrears, deferred payments of Pay-As-You-Earn and corporate income tax and the expedited repayment of VAT refunds;
- iv. Import substitution and export promotion by providing funding to Uganda's Development Bank and recapitalizing the Uganda Development Cooperation.
- v. Spending reallocations also contributed to the financing of Covid-19-related spending.

- vi. Emergency assistance from international organizations and foreign governments.

(b) **Monetary Policy** - In the short term, it is essential to provide liquidity and stabilize financial markets, but the room for maneuver of long-term stimulus is very limited.

Bank of Uganda (BOU) committed to undertake the following:

- i. Intervene in the foreign exchange market to smoothen out excess volatility arising from the global financial markets;
- ii. Provide exceptional liquidity assistance for a period of up to one year to financial institutions supervised by BOU that may require it;
- iii. Waive limitations on restructuring of credit facilities at financial institutions that may be at risk of going into distress due to the COVID-19 pandemic;
- iv. Continue to engage Mobile Network Operators (MNOs) and commercial banks to:
 - o Further reduce fees on mobile money transactions and other digital payment charges in order to limit the use of cash and bank branch visits.
 - o Increase daily transaction and wallet size limits for mobile money transactions.

4.0 Identification of Impacts on Financial Statements

As a result of the unprecedented fiscal interventions being deployed by governments worldwide, the effects of the pandemic will be felt on government finances both immediately and in the long-term. In this context, information provided in financial statements plays a main role when allocating and reporting on public resources that are generally scarce.

Assessing the immediate and ongoing cash/accrual impacts of government interventions to improve information for decision making:

- (a) Financing of the different interventions - considerations include among others:
 - (i) Cash needs
 - (ii) Asset acquisition
 - (iii) Risk mitigation
 - (iv) Financing without debt
 - (v) Financing with debt
- (b) Recording the transactions undertaken.
- (c) What are the required disclosures to improve information for decision making?
 - (i) Details on transactions
 - (ii) Cash balances not available or are subject to restrictions of use
 - (iii) Borrowing facilities available for future transactions

(iv) High-level comments on the impacts of COVID-19 on subsequent reporting periods

4.1 Financing the Interventions

To finance the interventions - transactions include:

- (a) Social benefit payments -on ongoing payments,
- (b) Acquisition of PPE
- (c) Tax deferrals - dealing with attendant impairment losses on tax receivables - detailed risk evaluation
- (d) issuance of loans (government backed) - details of interest revenues,
- (e) Transfers (in form of budget support or performance obligation) - detailed records of total amount of transfers
- (f) Issue of government bonds

4.2 Recording the Interventions

To record in the government accounts the financial impact of the most commonly observed types of COVID-19 related government interventions and their impact, we will use an illustration.

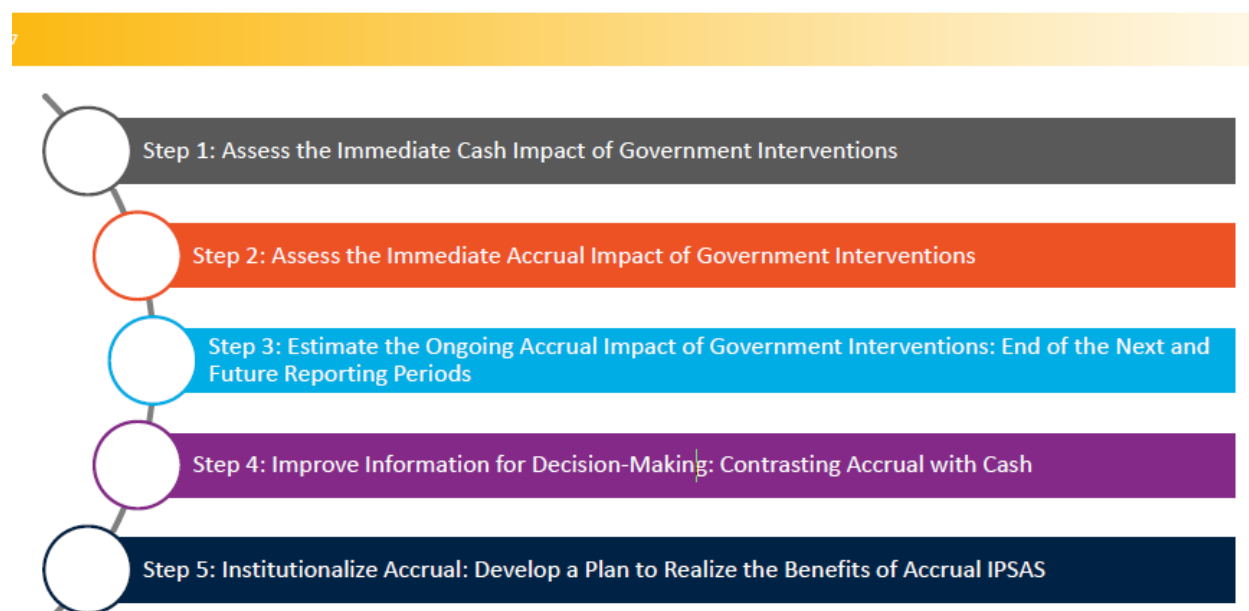
Government Intervention	Recording
Increased Healthcare Spending	
1. Additional spending on more healthcare workers or increased spending on existing healthcare workers.	<ul style="list-style-type: none"> • Recorded as Expense/Compensation of employees, in general. • However, if the government is buying the services from private healthcare contractors then this would be recorded in Expense/Use of Goods and Services.
2. Additional spending on medical supplies (such as masks, sanitizers and pharmaceuticals).	<ul style="list-style-type: none"> • Recorded as Expense/Use of Goods, in general, where the supplies are being purchased for use by government healthcare providers. • However, where general government purchases the supplies to distribute for use by households then record as Expense/

<p>3. Acquisition of medical machinery and equipment (such as respiratory ventilators).</p>	<ul style="list-style-type: none"> • These costs will be recorded as acquisitions of fixed assets. Depending on the type of asset, either Buildings or PPE. • However, if the government unit is only making a payment to another entity, who will construct/purchase the asset and become the economic owner of that asset then this will be recorded as: Expense/Grants/Capital grants to other general government unit, if the payment is to a government unit in another level of government, or Expense/Other Expense/Capital transfers not elsewhere classified, in other circumstances. <p><i>Note. Constructions that don't meet the definition of a fixed asset (such as temporary tents used for testing, which are not intended to be used for multiple years) should be recorded as an expense/ use of goods.</i></p>
---	---

5.0 Assessing Economic Impacts

The assessment takes the following 5 steps:

Five-Step Assessment Process



Taking the example of Acquisition of medical machinery and equipment (such as hospital beds):

Step 1: Assessing the immediate cash impact of the intervention

- (a) Government has determined that there is need to procure 4,000 COVID-19 hospital beds, at a cost of UGX 100M for the COVID-19 treatment facilities across the country.

- (b) Government must then consider the available cash resources to make the intervention
- (c) Depending on its current position, the government may be able to make the intervention or may need to undertake an additional transaction(s) to finance the intervention, for example through debt issuance, or loans, etc).
- (d) For example, if government determines that it has only UGX 40M cash available, it may need to borrow to raise the additional cash.

Step 2: Assessing the immediate accrual impact of the interventions

- (a) Government should also assess the accrual impact of the intervention by applying the IPSAS requirements to the specific transaction.
- (b) For example, assuming government had 2 options to consider:
 - i. Transferring funds (grant UGX 100M), or
 - ii. Loaning funds (UGX 100M), at a 5% interest rate.
- (c) This step deals with the accounting for the intervention itself (the transfer or the loan of UGX 100M).

Step 3: Estimating the ongoing accrual impact of government interventions

- (a) To do this, government should consider the economic impact of the transaction, which is more than just the timing of the related cash flows.
- (b) Comparing the accrual impact to the related cash flows over time illustrates the economic impact of the intervention and long-term financial impact.
- (c) Government considers the impact on accrual accounting of the 2 alternatives - the transfer or the loan of UGX 100M, on government's financial position at the end of the reporting period.

Step 4: Improve information for decision making - contrasting accrual with cash

- (a) With a comprehensive understanding of the ongoing impact of government's interventions on its financial position, government can enhance its decision making process and take informed decisions regarding the management of the interventions.
- (b) The efficient and effective management of the interventions requires a full understanding of the financial impact of the transaction.
- (c) Managing on a cash flow basis may limit the identification of the of options available to make the intervention, and also cause government to react to financing needs rather than anticipating future financing needs basing on its accrual balance sheet.
- (d) Contrasting accruals with cash accounting for the 2 options:
 - Government grants funds to the Ministry, the impact of accrual accounting is minimal, because the transaction is complete when the funds are transferred.

- Government loans funds to the Ministry - accrual accounting helps decision makers to see the full picture of the transaction as it captures the disposition of the cash and the recognition of the receivable for the loan that the Ministry has to repay in the future. This information will enhance government's decision making process.

Step 5: Develop a Plan to realize the benefits of accrual IPSAS

Once the immediate and ongoing impact of the interventions has been assessed, government should then develop a plan to realize the full benefits of accrual accounting.

6.0 Key PFM Areas & COVID-19 Implications

PFM systems are critical to support the efficacy of government's emergency response. Government needs to ensure that its systems are equipped to meet the new requirements and challenges in terms of:

- (a) Supporting the delivery of emergency health services (including the direct provision of health care services); purchase of supplies and equipment; putting in place the human resources needed to monitor, contain, and mitigate the COVID-19 outbreak;
- (b) Ensuring the ongoing delivery of essential public services that may come under stress during the crisis;
- (c) Implementing new fiscal measures (including various support mechanisms) to assist businesses and people experiencing economic hardship; and
- (d) Ensuring smooth PFM services despite absences of staff across the government.

Some considerations here may include:

1. **Reprioritizing spending** - estimate resource requirements for emergency response, and identify low priority spending that could be reduced to create room for priority spending.
2. **Cash management** - Liquidity management will be critical to enable the government to meet its extended obligations and provide relief to the affected population
3. **Ensure timely fund disbursement** - Robust budget execution processes will ensure that resources are made available to service delivery units in a timely and efficient manner to meet their (additional) obligations. The idea will be not to bypass established controls but create a stream for handling priority items and fast track expenditure authorizations.
4. **Track and report emergency response measures** - It is important to set up transparent mechanisms for tracking, accounting, and reporting of emergency measures to ensure that comprehensive and timely information is available to policymakers and the public.

5. **Ensure business continuity** - Government should be ready with its business continuity plans to deal with large scale absence of staff, as more and more people report sick or are required to refrain from attending offices.
6. **Establish effective coordination with lower local governments** - Coordination with lower local governments will be important in understanding the needs at the grassroots level, to provide the necessary funding to enable them to meet the enhanced service delivery requirements, and to improve the quality of response.
7. **Ensure government accountability** - Public accounting as common language of governments.

7.0 Other considerations - Information requirements

Ministry of Finance, Planning and Economic Development (MoFPED):

- (a) Initially, government drew from the Contingency Fund in the FY2019/20 budget to finance the Ministry of Health Preparedness and Response Plan (estimated at about US\$1.3 million). Does the Contingency Fund have a legal status in the Ministry of Finance, Planning and Economic Development? How is the Fund managed to guarantee availability?
- (b) Is the MoFPED able to estimate the fiscal deficit for the past FY as a percentage of GDP?
- (c) Extra-budgetary funds such as the COVID-19 funds set up to receive voluntary contributions from the private sector and public. These may create risks as they may bypass normal budgetary and expenditure controls. In the absence of full and timely information, they distort the finance ministry's picture of public finances.

Tax Authority:

- (a) How has the authority managed to balance temporary relief of tax obligations and government support policies while protecting revenue and safeguarding compliance?
- (b) Are targeted tax measures for the FY 2021/22 able to immediately support health priorities, protect individuals and solvent enterprises, and safeguard revenue for the future?
- (c) What are some of the tax law design considerations taken into account to support measures taken in response to and the recovery from COVID-19?
- (d) How will the authority ensure continued revenue collection and agencies' operations to help finance and implement governments' responses to the crisis?

Central Bank:

- (a) Just like in other jurisdictions, the Pandemic has tested the adequacy of Central Banks' legal frameworks. Has the Central Bank considered a review of its legal

framework to allow for flexibility and support appropriate exceptional measures?

- (b) Central bank laws need to strike a balance between flexibility and the mitigation of risks. Well-designed “escape clauses” allowing the central bank to provide—under specific conditions—funding to the government in severe emergency situations.

This tool will need to be further adapted to provide government with a "more complete understanding of their financial standing and ability to recover from the impacts of the pandemic".

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

📍 PLOT 42/46/48 BUKOTO STREET, KOLOLO, P.O. BOX 12464, KAMPALA, UGANDA

☎ 0414-540125 🌐 www.icpau.co.ug ✉ standards@icpau.co.ug 📱 @ICPAU1 📺 ICPAU 📺 Institute of Certified Public Accountants of Uganda 📺 ICPAU