INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA

INFORMATION PAPER ON EXISTING CAPABILITIES, CAPACITY GAPS AND RESOURCES FOR IPSAS IMPLEMENTATION

JULY 2024

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ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) was established in 1992 by the Accountants Act, Cap 266 now the Accountants Act, 2013 (the Act). The functions of the Institute as prescribed by the Act are:

i) To regulate and maintain the standard of accountancy in Uganda and to prescribe, and
ii) To regulate the conduct of accountants and practising accountants in the country.

The Council of ICPAU is mandated under Section 12(r) of the Accountants Act, 2013 to advise the Government on financial accountability and management matters in all sectors of the economy.

ICPAU is dedicated to serving the public interest by strengthening the profession and contributing to the growth and development of Uganda's economy.

Vision

A globally recognized promoter of accountants for sustainable economies.

Mission

To develop and regulate accountants for professional excellence and sustainable impact.

Core Values

1) Professional Excellence
2) Accountability
3) Integrity
4) Responsiveness

International Affiliations

The Institute is a member of the International Federation of Accountants (IFAC) and the Pan African Federation of Accountants (PAFA).

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PURPOSE

ICPAU provides guidance and resources to help its members to keep up to date with regulatory issues and other developments in the profession. ICPAU represents professional accountants in Uganda and contributes to public affairs and other matters that impact the accountancy profession.

The primary purpose of this publication is for the accountants in the public sector to appreciate GoU's IPSAS implementation journey, but also understand the rationale for the transition to accrual IPSAS and the many challenges that may be encountered in adopting and implementing these standards.

DISCLAIMER

LIST OF ACRONYMS AND ABBREVIATIONS

RPG	- Recommended Practice Guidelines
IFRS	- International Financial Reporting Standards
IPSAS	- International Public Sector Accounting Standards
IPSASB	- International Public Sector Accounting Standards Board
PFM	- Public Finance Management
IFAC	- International Federation of Accountants
CIPFA	- Chartered Institute of Public Finance and Accountancy
PAFA	- Pan African Federation of Accountants
UN	- United Nations
EU	- European Union
AU	- African Union
ECOWAS	- Economic Community of West African States
CPA	- Certified Public Accountant
ICPAU	– Institute of Certified Public Accountants of Uganda
PFMA	– Public Finance Management Act
GoU	– Government of Uganda

INFORMATION PAPER ON EXISTING CAPABILITIES, CAPACITY GAPS,AND RESOURCES FOR IPSAS IMPLEMENTATION IN UGANDA

1.0 INTRODUCTION

IPSAS, short for International Public Sector Accounting Standards is a set of accounting standards developed and issued for use by government and public sector entities around the world in the preparation of financial statements. They are the public sector equivalent of the International Financial Reporting Standards (IFRS).

The IPSAS Board (IPSASB) has developed and issued 48 accrual accounting standards to date, a cash basis standard for countries moving towards full accrual accounting, and three Recommended Practice Guidelines (RPGs). The RPGs offer guidance on many aspects of broader financial reporting in addition to the fundamental financial statements.

The accrual IPSAS are based on the IFRS where the requirements of those Standards apply to the public sector (that is to say, have been adapted to a public sector context where appropriate). They also address financial reporting challenges unique to the public sector that are not covered by IFRS.

IPSAS reporting allows for either the cash basis of accounting utilizing the cash basis standard OR the accrual basis of accounting utilizing the accrual accounting standards. However, one will also find the modified cash basis of accounting which combines elements of cash and accruals basis.

1.1 Global Status of IPSAS Adoption and Implementation

In its Strategy and Work Plan 2019–2023 (*Delivering Global Standards. Inspiring Implementation*)[1], the IPSASB's overarching objective is to strengthen Public Financial Management (PFM) globally through increasing adoption of accrual-based IPSAS. IPSAS, the accrual basis of accounting provides a comprehensive and accurate picture of governments' and other public sector entities' resources and liabilities, and therefore their financial position and performance. This not only increases transparency and accountability to their citizens and stakeholders but also informs effective decision-making, thereby contributing to fiscal stability and sustainability.

For this reason, many governments have already adopted and implemented IPSAS. The International Public Sector Accountability Index 2021 status Report[2], issued by the International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA), paints a positive picture of accrual adoption efforts globally, with 30% of jurisdictions reporting on accrual in 2020 – up by 6% since 2018, and 40% governments transitioning from cash to accrual-based

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[1] https://www.ipsasb.org/publications/ipsasb-strategy-and-work-plan-2019-2023

[2] https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/international-public-sector-financial-accountability-index-2020

reporting. Moreover, 57% of the governments that have already adopted accrual-based accounting are making use of IPSAS.

It is also expected that by the end of 2025, 73% of the participating jurisdictions will report on an accrual basis and either use IPSAS as a reference point or apply IPSAS directly or indirectly. This means not only that the number of governments making use of IPSAS will have increased, but also that there will be an overall greater percentage of direct and indirect IPSAS implementation globally.

1.2 The State of IPSAS Adoption and Implementation in Africa

There is still great diversity in the current government accounting landscape on the Continent. The International Public Sector Accountability Index Status Report of June 2021 revealed that:

- 2 jurisdictions as of 2020 were using the full accrual basis (Nigeria and Tanzania) without modification;
- 16 were reporting on a partial accrual basis (Senegal, Mali, Burkina Faso, Ghana, Chad, South Sudan, Congo Democratic Republic, Uganda, Kenya, Rwanda, Burundi, Malawi, Botswana, South Africa, Swaziland, and Madagascar);
- 10 were reporting on a cash basis (Sierra Leone, Liberia, Ivory Coast, Central African Republic, Ethiopia, Somalia, Zambia, Zimbabwe, Mozambique, and Lesotho);
- And no data was available for the rest (about 26) countries on the Continent.

The Pan African Federation of Accountants (PAFA), a recognized regional organization and network partner of the International Federation of Accountants mandated to advance accountancy learning and development in Africa, developed an IPSAS Implementation Roadmap for Africa[3]. The roadmap among other things highlights how African countries can benefit from adopting international standards, and discusses the key factors for the successful adoption and implementation of IPSAS accrual in Africa.

1.3 Jurisdictional Context

Uganda is a country with a growing economy that is looking to implement IPSAS. The country continues to face pressures to improve its reporting infrastructure to facilitate better financial management and achieve greater transparency and accountability. The move to adopt IPSAS is part of the government's public sector financial management reforms because the government recognizes the importance of appropriate accounting and financial management in achieving sustainable public finances in the public sector.

The Institute of Certified Public Accountants of Uganda (ICPAU) approved the adoption of IPSAS in 2006 for use by the government and other public sector entities

[3] https://pafa.org.za/uploads/files/IMPLEMENTATION-ROAD-MAP-FOR-AFRICA-3_compressed_2023-06-02-120118_jgbw.pdf

in preparing general-purpose financial statements. Per national legislation, specifically the Public Finance Management Act 2015 (*as amended*) and the Accountants Act 2013, ICPAU and the Accountant General have a shared responsibility to adopt and approve public sector accounting standards for use in the preparation of government financial statements.

While ICPAU has adopted IPSAS without modifications, the Accountant General has yet to make any pronouncement about IPSAS adoption and implementation but adopted a modified accrual basis of accounting as a transitional arrangement towards the adoption of the full IPSAS accrual basis of accounting. The modified accrual basis of accounting:

- Recognizes revenue when earned with the exception of revenue from grants, taxes, and non-tax revenue from non-exchange transactions that are recognized when received.
- Recognizes expenses when incurred with the exception of pension for active staff in the civil service that is recognized when it is due for payment.
- All non-current assets with the exception of non-produced assets are depreciated at the appropriate depreciation rates.

This means that with some exceptions, the government generally applies the accrual basis of accounting for its financial transactions. The specific guidance given for accounting transactions does not necessarily contradict IPSAS requirements but seeks to comply with IPSAS as much as possible. While the Treasury Instructions guide for certain transactions to be accounted for in accordance with the applicable IPSAS once adopted, they do not specify the period within which full adoption and implementation should be achieved.

2.0 THE RATIONALE FOR TRANSITION TO ACCRUAL IPSAS

2.1 Strengthening PFM through the Adoption and Implementation of Accrual IPSAS

2.1.1 The need for effective management of public finances through accrual accounting to achieve a comprehensive presentation of the government fiscal position and performance, which aids in shaping policies for economic progress and efficient service delivery.

a. By capturing both cash and non-cash transactions in financial statements, accrual-based reports provide a more comprehensive view of the government's financial performance and the cost of government activities.
b. Accrual accounting can help focus greater attention on the part of policymakers and the public on the acquisition, disposal, and management of government assets, liabilities, and contingent liabilities.
c. By consolidating not only central government ministries and agencies but all institutional units under government control, accrual accounts

provide a more complete picture of the financial position of the public sector as a whole.

d. Reporting stocks and flows within an integrated accounting framework based on internationally accepted standards can improve the reliability and integrity of government financial data.

2.1.2 Policy and Budget

a. Accrual accounting facilitates public scrutiny, achieving value for money and financially sustainable decision-making.
b. Accrual accounting puts finance at the heart of decision-making.
c. Accrual accounting provides fiscal discipline.

2.1.3 Financial Markets

The use of accrual IPSAS reporting and influence increases stakeholder demand for transparency and accountability in the public sector.

2.1.4 Comparability

The need for comparability and a global shift towards a more meaningful and uniform financial reporting framework for the public sector.

2.1.5 Globalization

The result of pressure from international organizations (perhaps linked to donor aid). IPSAS are internationally accepted reporting standards and have been adopted by many international and regional organizations including the UN, EU, AU, and ECOWAS.

2.2 The Plan

The Plan comprises three main phases:

2.2.1 Risk Assessment and Gap Analysis

Identify the potential risks associated with IPSAS implementation and propose mitigation measures to address the risks that may arise during the transition. Undertaking a gap analysis of the current practices against accrual basis IPSAS requirements in terms of policies, processes, systems, and people.

2.2.2 Implementing the Transition Roadmap

Agreeing on the required strategic activities and feasible implementation timelines for;

- Updating of policies, processes, and systems
- IPSAS Training programs and materials
- Phased rollout of the IPSAS
- Progressive preparation of accrual financial statements for adopted IPSAS
- Embedding and sustaining;
- Preparation of IPSAS-compliant financial statements
- Continuous monitoring of developments in IPSAS and update of policies and guidelines as appropriate.

2.2.3 Project Team

Establishing proper coordination and management arrangements by setting up a project team to steer the project.

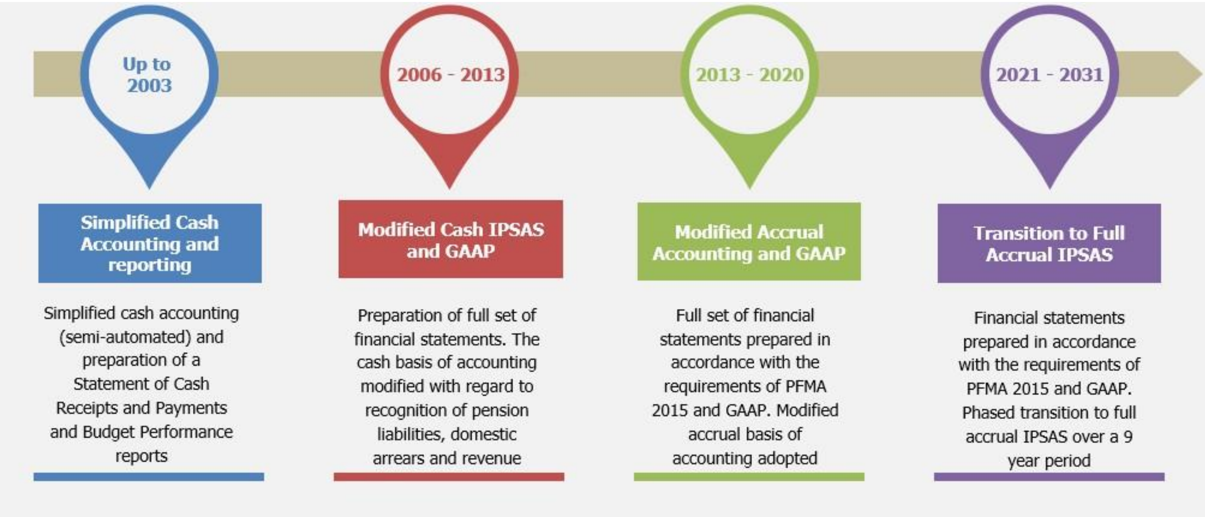
The Government has planned:

- For the transition to be implemented in a progressive phased manner, over a period of 9 years (FY 2023/2024 – FY 2031/2032).
- The proposed phasing is to be designed such that, at each phase of the transition, an integrated and internally consistent set of financial statements is produced.
- Focus on accounting areas that are relatively easier to convert, while data is being collected and systems are being enhanced or upgraded to support the more complex accounting areas.
- That during the transition period, government financial reports will be prepared in accordance with the PFMA 2015 (*as amended)*, and the guidance issued by the Accountant General from time to time.
- That IPSAS 33, *First-Time Adoption of Accrual Basis IPSAS*, which defines a reasonable transition period as being three years, will be considered in the last stage of the adoption process.

The government will need to provide a realistic timeline for the phased implementation of IPSAS and develop a roadmap that outlines the key deliverables.

2.3 Reported Progress to Date

The Government of Uganda's IPSAS implementation journey to date is illustrated here below:



Source: Accountant General's Office's Presentation at 1st Annual PFM Conference, 2023

The Government has undertaken the following activities towards the transition to full accrual reporting;

(1) *Undertaken a Gap Analysis* to determine:

(a) the nature of the required change;

(b) the structure, speed, context, and sequencing of change; and

(c) resources required for the implementation of the migration process.

(2) *Established the Asset Management Department* in charge of:
   (a) Asset Register;
   (b) Non-current asset management policy draft;
   (c) Fixed asset module; and
   (d) Recognition of Non-Produced Assets e.g., Land.

(3) Issued Financial Reporting Guidelines to reporting entities.

(4) Developed Revised Financial Reporting Templates.

(5) *Aligned the Chart of Accounts to the Government Financial Statistics Manual 2014.* The development of a new chart of accounts is a key step in the adoption of accrual accounting. A well-planned chart of accounts can assist in the efficient generation of financial information for a variety of purposes.

3.0 EXISTING CAPABILITIES

The decision to adopt IPSAS means changing the accounting basis that the Government is currently using from 'modified accrual' to 'full accrual.' This transition is an important step forward, as it will ensure that the government's financial information is in line with international best practices.

The government needs to assess the existing capabilities for the transition before embarking on IPSAS implementation. This should include a review of the existing systems, processes, and resources currently available. The government has made significant progress in the accrual IPSAS journey and can leverage the following existing capabilities to support the implementation of IPSAS in Uganda:

3.1 Governance Arrangements

One of the critical elements of any reform planning and implementation is the establishment of proper reform coordination and management arrangements. The government has established a National Steering Committee to coordinate and guide the accrual IPSAS implementation process. The Ministry of Finance, Planning and Economic Development (MoFPED) hopes to formalize this structure and membership including the definition of roles and responsibilities, and also the setup of a dedicated project team comprising the MoFPED as the lead implementor and other selected stakeholders.

3.2 Transition Roadmap

Because the process involves long-term initiatives that require a lot of planning and coordination, the Ministry of Finance, Planning, and Economic Development developed a comprehensive accrual IPSAS transition roadmap, which outlines the strategy and feasible implementation timelines. The roadmap is hoped to be implemented in a progressive phased manner over a period of 9 years (FY 2023/2024 – FY 2031/2032), and the 1st phase is hoped to be completed in FY 2025/26, seeing critical accrual IPSAS provisions being implemented.

ICPAU notes that implementation of the roadmap will require greater human and financial capital, and reports that it primarily intends to contribute to the roadmap implementation strategy by building professional competence and capacity through training.

3.3 Financial Reporting Reforms

Several reforms have already been put in place by the government, including:

i. A New Unified Government Finance Statistics (GFS) compliant Chart of Accounts (for budgeting, accounting, and reporting) which fully supports the implementation of accrual IPSAS and the National Development Plan (NDP) III programme budgeting approach;
ii. A PFM Systems upgrade to support all accrual IPSAS requirements – the first phase of the PFM Systems upgrade was completed on 30 June 2022, and the government plans a phased enhancement of PFM systems to support all accrual IPSAS requirements.
iii. Establishment of an Asset Management Department, in the hope of fixing the assets data gaps. Ongoing procurement process for a specialized Government Asset Management Information System (GAMIS) to support full-cycle asset management processes and also ongoing discussions with stakeholders to acquire specialized software for the valuation of assets; and
iv. Introduction of e-government procurement to streamline government procurement processes.

3.4 Public Sector Accountancy Working Group

A Public Sector Accountancy Working Group (PSAWG) was formed, comprising five (5) offices; the ICPAU, the Office of the Auditor General, the Accountant General's Office, the Internal Auditor General's Office, and the Local Government Finance Commission. The Group has a Steering Committee comprising the heads of the respective offices and a Technical Working Group comprising 2 contact persons from each of those offices.

The PSAWG was established to provide strategic guidance and advisory to the PFM reform implementation process. It is geared towards overall policy coordination and guidance to the PFM reform actors and activities cited herein. The Working Group works to understand the IPSAS adoption and implementation challenges and to provide strategic guidance and advisory to the implementation process.

3.5 Pool of Finance Professionals

Over the years, the stock of qualified accountants in government service has increased. This includes accountants across all levels of government; Central government, public sector agencies, commissions, as well as Local governments. Currently, this number is estimated to be about 1,015 qualified accountants.

3.6 A Professional Accountancy Organization

The Institute of Certified Public Accountants of Uganda (ICPAU) is the national professional accountancy organization and is a member of the International Federation of Accountants. ICPAU has a leading role in supporting and advising on the adoption and implementation process and is actively supporting PFM activities and the IPSAS adoption and implementation roadmap. The role of ICPAU is crucial to ensure the long-term supply of trained professionals.

ICPAU:

a. Organizes training programs for public sector personnel in various PFM disciplines and IPSAS, and believes there should be a well-structured training program for all public sector personnel to support the IPSAS adoption and implementation process.
b. ICPAU has engaged and continues to engage government and other public sector players, regulatory bodies, inter-governmental organizations, and other stakeholders on the key issues and requirements that need to be addressed before the adoption and full accrual IPSAS implementation.
c. Has revised the CPA Syllabus to include more public sector content which is available as of January 2023.
d. Provides guidance and training on IPSAS.

3.7 The International Community

The international organizations that provide technical assistance and guidance on IPSAS adoption and implementation, such as the International Monetary Fund (IMF), the World Bank, and the International Federation of Accountants (IFAC). These organizations have a wealth of material related to PFM and the migration to an accrual-based accounting framework that would be very useful to the government as it pursues this journey.

4.0 CAPACITY GAPS AND RESOURCE REQUIREMENTS

To be able to properly deploy IPSAS, the government must evaluate its current capacity gaps and resource requirements. This should include a review of the existing systems, processes, and resources as well as an assessment of the existing expertise within the public sector, such as relevant staff skills and experience, to determine the capacity gaps that may exist. It is essential to assess the present level of competence, resources, and knowledge, taking into account any resources or assistance needed to fill up any identified gaps.

4.1 Capacity Gaps[4]

In comparison with the IPSAS requirements, a review of the current status revealed several gaps:

[4] *Sourced from the Accountant General's Office's Presentation at 1st Annual PFM Conference, 2023*

4.1.1 Legal and Regulatory Framework

Lack of legal backing and policy support for accrual IPSAS adoption and implementation in the PFM Legal Framework, which could potentially compromise the overall success of the required reform.

4.1.2 Processes

A lack of detailed IPSAS-compliant procedures and financial-related processes. There will be a need for developing an accounting manual and templates that will integrate the basic requirements of the IPSAS and the treatment of certain unique transactions in line with the IPSAS.

4.1.3 Systems

Inadequate capacity of current information systems to ensure proper integration between different PFM functions and systems, and IT infrastructure, hard and software to support accruals implementation across the country.

4.1.4 Financial Resources

Inadequate funding available for the transition to accrual IPSAS. The total resources required by the government to be able to cope with increased reporting requirements and transparency is huge.

4.1.5 Data Limitations

Data gaps, particularly availability and quality of data on public assets. There is a need for more research and analysis to ensure that IPSAS is implemented in a way that is consistent with the government's goals and objectives.

4.1.6 Human Resource

Lack of adequate qualified personnel to manage the adoption and implementation process of accrual IPSAS. Inadequate human resource capacity, in terms of additional personnel needed to be involved to ensure timely and smooth implementation of IPSAS, without jeopardizing the day-to-day operation of the current systems, skills gaps in new business and accounting processes and procedures, as well as training materials, to support the implementation process.

4.1.7 Political support and willingness of the key stakeholders

There is inadequate political support and commitment from the relevant stakeholders to initiate, carry out, and sustain the accrual IPSAS implementation reforms.

4.2 Resource Requirements

4.2.1 Legal and Regulatory Backing

Full accrual IPSAS adoption and implementation in the country will require amendment of legal and regulatory frameworks (the Public Finance Management Act 2015 and attendant laws and regulations). The government will be required to make a pronouncement in the national laws that it has adopted the IPSAS accrual-based framework for implementation across the public sector. Delays in the updating of the legal and regulatory frameworks might significantly compromise the overall success of the reform.

4.2.2 Policy Support

The government will be required to incorporate the requirements of accrual-based IPSAS in national and institutional policy guidelines.

4.2.3 Financial Resources

The government should evaluate the financial resources allocated or required for IPSAS implementation, and assess the budget implications and potential sources of funding. Resource allocation for implementation support, monitoring, and maintenance as with any other reform will have costs. Funding commitment from GoU and secure inclusion of the accrual IPSAS Project budget in the national budget, as well as engagements with Development Partners (including the World Bank-funded project to support the implementation of accrual IPSAS) will be necessary.

4.2.4 Capacity Building Strategy

The government should be aware that undertaking full IPSAS adoption and implementation, will require considerable capacity-building effort to train existing public sector finance personnel but also require additional personnel to be involved to ensure timely and smooth implementation. Outlining the current training programs in place for IPSAS and assessing their effectiveness will enable the establishment of strategies for ongoing training and capacity-building initiatives. ICPAU and Academia will be the main allies of the government in developing and implementing a comprehensive long-term capacity-building program for the implementation of accrual IPSAS in Uganda.

A dedicated staff is necessary for the implementation of accrual IPSAS. Staff will be involved in learning about the new information needs and system changes as well as the implications and significance of the information reported:

- Getting the right skills for accruals implementation requires building internal capacity within the public sector and developing a training program so that they can 'grow their own' rather than relying on the marketplace to supply sufficient talent.
- Continuous training and skills development so that a critical number of professionally qualified staff are available to support and sustain IPSAS adoption.
- Pay reforms will also be required for public sector finance professionals. Government will need to develop remuneration packages sufficient to attract and retain professionals with the necessary skills, knowledge, and experience.

4.2.5 Processes and Procedures

Significant changes in the existing accounting processes and procedures will be required to capture new information, particularly on assets and liabilities. The increased complexity of financial reporting and disclosure will imply that existing Financial Regulations and Rules will need to change.

4.2.6 Research and Analysis

There will be a need for more research and analysis to ensure that IPSAS is implemented in a way that is consistent with the government's goals and objectives.

4.2.7 Technological Infrastructure

The government must:

- Examine the existing information technology infrastructure and its compatibility with IPSAS requirements.
- Identify any gaps in technology that may need to be addressed for successful implementation.
- Invest in hardware and software solutions to provide the necessary infrastructure for full accrual IPSAS adoption and implementation. To support IPSAS information needs, the current information systems and IT infrastructure will need to be either replaced or upgraded.

4.2.8 Data

Requirement for collection and verification of data for purposes of the information required in the implementation of accrual IPSAS. Focus must be put on the availability and quality of data.

4.2.9 Political support and willingness of the key stakeholders

To initiate, carry out, and sustain the implementation process, there is a requirement for strong political commitment to the implementation of IPSAS - the need for the 'buy-in' of political leadership as high-level champions for the changes. This commitment will require support from the highest level of authorities, such as the President or Parliament.

While the Ministry of Finance/ Accountant General assumes the leading role in the IPSAS implementation process, other stakeholders (the OAG, and Internal Audit citizens, donors, funders, service users, civil society groups, and other groups) need to be identified and involved to ensure the success of the reform process.

4.2.10 Change Management

Resistance to change at different organizational levels is one of the main risks to the successful adoption and implementation of accrual IPSAS. The benefits and implementation status of the reform should be effectively communicated to the key stakeholders. The Ministry of Finance should evaluate the communication strategy for IPSAS implementation, and implement proper communication, and dissemination strategies to minimize the risk of sabotage and disruption. Communication is key to keeping everyone informed as to the status of the project.

4.2.11 Monitoring and Evaluation

Increasing the scale and depth of accrual IPSAS adoption and implementation in Uganda is an ambitious and long-term effort. The existence of arrangements for continuous monitoring and evaluation of the project's progress is crucial to ensure the achievement of the desired results and outcomes during and after the implementation is completed.

5.0 WAY FORWARD

While accrual information has tremendous potential to support better public financial management, the government has yet to realize its full benefits, particularly in using accrual information for decision-making. Overall, the successful implementation of IPSAS in Uganda will require significant investment in capacity building, resources, and political commitment.

In general, implementing IPSAS necessitates a careful analysis of current capabilities, capacity gaps, and the resources required to close those gaps. Significant investment in capacity building, financial resources, fostering harmonious collaboration among various stakeholders, and political commitment will be needed for GoU to implement IPSAS successfully. If these issues are resolved, GoU will be in a good position to successfully implement IPSAS and reap the benefits of this important step forward.

This is essential to accountability and decision-making and a cornerstone of sound PFM. In terms of the migration to an accrual basis of financial accounting and reporting, the PFM concepts of governance, legislation, standards, transparency, and scrutiny all need to be considered as the strategy and plan for the migration are developed.

As the government makes the transition to IPSAS, they are keen to understand the good practices and identify the lessons learned from other jurisdictions that have successfully implemented IPSAS. We note that while the mere pronouncement of IPSAS adoption by the government may be the easier part, successful implementation of these standards is a complex resource-intense, multi-stakeholder endeavor requiring expertise and adequate infrastructure.