



UGANDA DEBT NETWORK

**“DOES EACH SHILLING BORROWED BRING A
COMMENSURATE RETURN TO THE ECONOMY
AND BENEFIT TO UGANDA CITIZENS?”**

LAKE VICTORIA SERENA RESORT SPA - KIGO

Presented by: Patrick Tumwebaze
Executive Director - UDN



BRIEF ON UDN MANDATE

- UDN is a policy advocacy national level NGO working to promote and advocate for poor and marginalized people to participate in influencing poverty focused policies, demand for their rights and monitor service delivery to ensure prudent, accountable and transparent resource generation and mobilization.



PREAMBLE

- Provided that domestically generated resources remain insufficient most countries (especially) Africa are conditioned to borrow as a gap filler, given the multiple responsibilities of governments Vis a Vis planned public expenditures and their constrained resource envelope.
- (Eg. by 2015, Africa was indebted to the tune of \$41.3 billion)
- Uganda's debt dates back to early 1940s for constructing Owen fall dam with a debt of USD 8.4m from World Bank.
- Since then Ug. has continued to borrow so as to finance development initiatives and budget deficits. Until 2012, contracted debt funding constituted 25.8% of the national budget



What is the size of Uganda's Debt?

- Uganda has a robust debt related legislative and policy framework, eg Public Finance Management Act (2015), Public Private Partnership Act (2015) and others.
- Heavy borrowing recently tested Gov'ts fiscal management prudence considering debt accrued of USD 2.9 billion in FY 2006/7 to Shs. 34.0 trillion (USD 11.2 billion) as at May 2017 (MoFPED, 2017) Ref: BOU Monetary Policy Report July 2017



Current Debt Situation Cont'd

- Currently BOU report puts External debt at Shs. 21.3 tn (USD 7.1 bn) which is 62.4% of total public debt), and Shs. 12.7 tn in domestic debt.
- What is worrying, is that domestic debt is increasing and its cost and risk indicators by May 2017 were outside the Public Debt Medium Framework (PDMF) benchmarks - see table below.



RECENT PUBLIC DEBT DEVELOPMENTS

DOMESTIC DEBT RISK	PDMF	MAY-16	JUN-16	MAY-17
% maturing in 1 year ¹	<40%	44.9	44.5	40.6
% maturing in any year after year 12	< 20%	13.2% Yr 2 & 6.4% in Yr 3	11.3% Yr 2 & 7.8% Yr 3	8.9% Yr 2 & 12.9% in Yr 3
Tbonds/Tbills (at face value)	70/30	67/33	66/34	67/33
Avg Time to Maturity (ATM) (yrs) ³	>3Yrs	3.3	3.3	3.6
Total Stock/PSC (at nominal value)	<75%	99.1	101.0	106.3



Some Successful Loan Projects

- Uganda has registered commendable success stories in some of loan funded projects; eg :
 - US\$130 from IDA for **Uganda Health Systems Strengthening (UHSSP) Project**. This helped in strengthening Uganda's public health systems
- The Special Drawing Right (SDR) of 66, 900,000 for **Northern Uganda Social Action Fund project 2 (NUSAF 2)**, implemented by OPM.
- Auditor General's showed these loans were prudently utilized.
- *NB: UDN partnered with IG in training communities to monitor NUSAF II for transparency*



Does Each Shilling Borrowed Bring A Commensurate Return To The Economy?

- Uganda has registered success stories in some of loan funded projects; eg :
 - **Uganda Health Systems Strengthening (UHSSP) Project**
 - **Northern Uganda Social Action Fund project 2 (NUSAF 2)**
- Uganda has infrastructure Devt support from traditional donors on concessional terms, but recent trends indicate decreased borrowing from traditional donors



Issues with Uganda's Debts

Accumulating Interest Costs on debt are worrying:

- Eg. Domestic debts accrued partly to finance budget deficits attracted interest of only Shs 309.4billion in FY 2007/2008 (MoFPED, FY 2007/08 Budget).
- But as of now gov't is set to spend 8 times higher, ie. Shs 2,675.40 bn in FY 2017/18!
- A trend analysis of interest payments in the last 10 years indicates increasing expenditure with annual average of 78.5%



Poor Loan Performance

- In 2015 UDN assessed performance of externally funded projects. Out of 74 projects reviewed, 81% were unsatisfactory;
- Such loans were unlikely to be fully disbursed by the initial project close date;
- Only 12% had satisfactory level of performance and 7%, needed additional time to be completed. (*UDN, 2015, Unpub.*)



Some Inhibitors Of Absorption

Loan absorption Inhibitors cited in the study included:

- Lack of readiness in terms of feasibility studies; project designs;
- Non - Alignment with NDP objectives
- Inadequate internal capacity;
- Lack of counterpart funding
- Delays in resolving disputes of compensation
- Delays in Approvals on part of donors, Cabinet and parliamentary
- Procurement delays etc



Borrowing on Non-concessional Basis.

- Gov't has recently opted for and expensive venture of borrowing on commercial basis to finance long-term infrastructural projects.
- Eg: Karuma and Isimba Dams, Entebbe Airport and Albertine Region airport to be financed through loans acquired on commercial basis,
- China's EXIM bank has the largest share (29%) of Uganda's total loans



More on Commercial Loans

- Ug has a loan commitment to China of US\$ 2,588,078,279.
- These loans are to be paid in a short period of 10 years on average yet they are invested in long term projects. This defeats logic.
- The 2016 PTA Bank loan of \$200 million is to mature in 3 years' time with interest rate of 4.60%
- Relying on yet unexploited Oil revenues for debt servicing is the kind of speculation we should avoid.



Rising commitment fees on External loans

- Auditor General's FY 2014/15 Report showed that 69 out of 96 active loan projects had loan disbursement levels below 50% while 28 loans had 0% DL's.
- Between FY 2007/8 and 2014/15, Gov't paid USD 26.8m in form of commitment charges on undisbursed loans
- High costs of debt servicing: AG's report 2016 showed un-disbursed debt was Sh.18.1 tn with commitment charges of Sh.20.9 bn to be paid.



Corruption and Embezzlement

- Corruption erodes debt benefits even more: Transparency Int'l 2016 Corruption Perception index ranked Uganda as no.151 in out of 176 countries!
- Eg. In works & Transport UGX 4tn. meant to construct 5,147 Bitumen roads was misappropriated by UNRA staff & contractors
- The Commission of inquiry found that only 5 trillion had been hence used denying Ugandans approximately 3,647 Kilometers of bitumen roads (*UDN, 2016, Corruption Dossier Un Pub*)



Some More cases of Corruption in Loan Projects

- Mukono-Nyenga Katosi road (UGX 24.7bn)
- Nakalama—Tirinyi – Mbale Highway
- Kampala- Entebbe Express Highway project inflated by \$16m (COSASE Report)
- All these, reduce the net benefit that Ugandans would get from the loan funded projects
- *(Does each of these shillings borrowed and stolen bring a commensurate return to the economy and benefit to Uganda citizens?)*



Long Procurement processes

- Although PPDA Act, Act was amended in 2014 and 39 steps removed to ease procurement processes are still a constraint.
- UNRA Director Planning David Luyimbazi, is quoted to have decried long procurement processes saying procuring a \$100m project road costs the tax payer \$1m to cater for the inflation costs.



Some cases of Projects Constrained by procurement delays

- The 2015AG's Report highlights procurement concerns for underperformance of national debt portfolio.
- Eg: CAIP (US\$ 45 Million) project performance was constrained
- Karuma Hydro Power Dam (600MW) and Isimba HPP (183.2 MW)
- Multiple power centres in government are also cited as an impediment to progress in projects



- The question of whether each shilling borrowed brings commensurate returns to the economy and benefits Ugandans is timely given the 2020 middle-income status aspiration.
- Stakeholders should ensure prudent debt resource management
- New loan agreements should have value for money scrutiny
- Public loans should generate the requisite development outcomes & spur growth for the benefit of citizens.



We have cited a few issues that frustrate the wish for us to answer the question before us I the affirmative:

- Embezzlement
- Procurement delays
- Inadequate preparation
- Absorption capacity
- Commercial rate terms
- We appreciate efforts by some officials to mitigate fiscal challenges and champion prudent debt management.
- From the Ugandan citizens' perspective, if the challenges highlighted herein are not addressed, the cost benefit analysis of borrowing will remain negative.



THANK YOU VERY MUCH

- Contact us
- Patrick Tumwebaze,
- Tel. 0752-822000
- Email: ptumwebaze@udn.or.ug