Anti Corruption Coalition Uganda

TRANSPARENCY INTERNATIONAL UGANDA

CSO Press Statement, dated 16th December 2022

CSO concerns regarding transparency, accountability, debt and corruption

Currently at Shs80 trillion shillings (Shs33 trillion domestic) and (Shs47 trillion external), Uganda's soaring public debt remains a cause for concern. This is especially so in view of the alternatives foregone like increased investment in human capital development to service such debt.

While government is optimistic about the sustainability of public debt, there are some key points to note as the country continues on the borrowing path;

A. Non-adherence to the legal and policy frameworks on debt management:

Government of Uganda put in place several legal, policy and institutional frameworks to guide prudent debt acquisition and management in Uganda. These include the Public Finance Management Act, 2015, The Public Debt Management Framework, 2018 and the Charter for Fiscal Responsibility, 2021.

In FY 2020/21 the public Debt Management Framework, 2018 thresholds on interest payments were breached;

Indicator	Benchmark/Threshold	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
Total Domestic debt interest payments / Total revenues	**< 12.5%**	13.3%	11.3%	13.5%	15.4%	15.0%(projection)
Total interest payment /total revenues	15	15.4	13.5	15.9	18.4	19.8%(projection)

This was largely on account of covid-I9 effects. If not checked, this poses liquidity risks especially as the country continues to acquire external debt on non-concessional terms occasioned by the need to finance the country's infrastructure programme and increasing domestic borrowing to finance the fiscal deficit.

B. Cost and risks associated with public Debt

Cost of debt; the cost of debt has continued on an upward trajectory for instance interest payment as % of GDP rose to 3.1 in December 2021 from 2.8 in June of the same year. This implies that interest payments have increased relative to the country's income.

Refinancing Risk - *Refinancing risk is the possibility of having the debt rolled over at a higher interest rate.* The Average Time to Maturity (ATM) for total public debt declined to 9.6 years from 10.3 years between June 2020 and June 2021. This was mainly driven by a reduction in the ATM of external debt from I2.9 years at June 2020 to 11.8 years at June 2021, as Government continues to take on less concessional debt with shorter maturities. *It should be noted that that Uganda's debt acquired on concessional terms has decreased* over the years from 74% as of June 2017 to 58% as at December 2021 while non- concessional borrowing increased to 24% from 11% over the same period.

Interest rate risk- Uganda's external debt is predominately fixed rate debt (68.44% on fixed rate term), (***implying that Uganda's debt portfolio is still less vulnerable to interest rate risk volatility)***

External Debt Stock by interest rate type (percentages)

Interest rate type	June 2019	June 2020	June 2021	June 2022
Fixed Interest Debt	88.62%	75.98%	74.58%	68.44%
Variable Interest Debt	9.35%	16.35%	17.31%	21.52%
No Interest Rate	2.02%	7.66%	8.11%	10.05%

Source: MoFPED

Concern: The External Average Time to Refixing (ATR) (***ATR provides a measure for the average length of time it takes for interest rates to be reset. The longer the period, the lower the interest rate exposure***) of total public debt (external and domestic) reduced from 9.5 years as at December 2020 to 8.8 years as at December 2021 (MTDS 2022/23 – 2025/26). In the current high interest rate environment, a shorter ATR is very risky because interest rates change to a higher rate in a short time resulting into higher debt service costs. Moreover, the proportion of variable interest debt has been increasing over years i.e. from 9.35% of the total external debt in June 2019 to 21.52% of the total external debt in June 2022. (***The increase in variable interest debt is highly due to increased acquisition of non-concessional debt which is based on varying international interest rates)***

C. Debt that is not included in the computation of total Public Debt

Guarantees

The Report on Public Debt, Grants, Guarantees and Other Financial Liabilities for Financial Year 2021/2022 highlights that, a total of 7 guarantees amounting to USD 55.1 million were registered as active by the end of December 2021. These comprised of mainly two entities Uganda Development Bank Limited (UDBL) and Islamic University in Uganda (IUIU). The total disbursed and outstanding guaranteed stock stood at USD 26.9 million as at the end of December 2021. Out of which, Islamic University in Uganda, a private education institution held 11% (USD 2.9 Million) and Uganda Development Bank, a public financial corporation held 89% (USD 24 Million). Despite, the decrease in the current exposure of Government to the disbursed and outstanding guaranteed debt from USD 28.3 million as at December 2020 to USD 26.9 million as at December 2021, Government is at risk of paying the guaranteed debt in the event grantees fail to pay. For instance, Outstanding debt service for the two entities increased by USD 0.28 million from USD 0.14 million as at end December 2020 to USD 0.42 million as at December 2021. The increment in exposure is attributed to non - payment by IUIU and it represents what the Government will have to pay if the guarantee is called.

Recommendation

Government should assess the purpose of the of loan acquisition by the guarantees in order to be sure that the investment made will yield returns that will be used to pay the debt. Furthermore, Government should follow up with guarantees that have outstanding loan balances to ensure timely payments thus avoid penalties

Domestic Arrears

The total stock of domestic arrears increased from UGX 4,144bn in FY 2019/20 to UGX 4,692bn in FY 2020/21 representing a 12% increase in total stock of domestic arrears as of June 2021. We would like to

credit Government for developing a Stategy to_Clear_and_Prevent_Domestic_Arrears_Uganda 2021. The move is anticipated to contribute to reduction of government debt while also improving business operations.

Recommendation
Government should clear Domestic arrears accumulated before 1st July, 2022 to avoid inconveniences of being dragged to courts of law (which is expensive especially in the event Government losses the case).

D. Corruption as one of the drivers of Uganda's growing debt burden.

The Country Policy Institutional Assessment and what this means

The Country Policy and Institutional Assessment (CPIA) is an annual diagnostic tool for countries eligible for financing from the International Development Association (IDA), the part of the World Bank that helps the world's poorest countries. The 2022 CPIA Report measures each country's quality of policies and institutional frameworks, and ability to support sustainable growth and poverty reduction. The report provides scores for 16 criteria for each country and an overall regional score on a scale of 1 (lowest) to 6 (highest), in four areas: economic management, structural policies, social inclusion and equity policies, and *public sector management and institutions*.

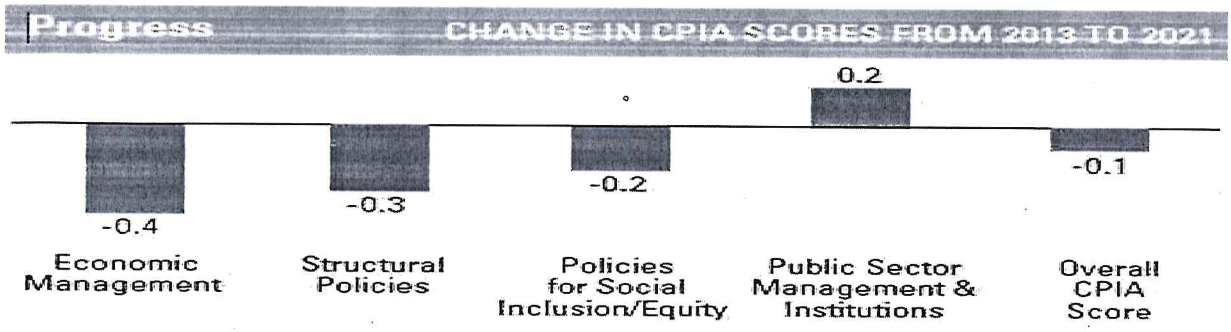
The overall score helps determine the size of the World Bank's concessional lending and grants to low-income Sub-Saharan African countries. Uganda's score is as below;

Country Policy and Institutional Assessment 2021

Indicator	Uganda	West and Central Africa	East and Southern Africa	IDA Borrowers Average
Public Sector Management and Institutions	**3.2**	**3.1**	**2.7**	**3.0**
Property Rights and Rule-Based Governance	3.5	3.0	2.6	2.9
Quality of Budgetary and Financial Management	3.5	3.2	2.7	3.0
Efficiency of Revenue Mobilization	3.5	3.4	3.2	3.3
Quality of Public Administration	3.0	2.9	2.7	2.8
Transparency, Accountability, and Corruption in the Public Sector	2.5	2.9	2.5	2.9

Transparency, Accountability, and Corruption in the Public Sector: Measures *the extent to which the executive, legislators, and other high-level officials can be held accountable for their use of funds, administrative decisions, and results obtained. Eg payroll thematic audit* (Audit for example observed that in 79 LGs, a sum of UGX.1,127,223,793 was paid to 635 staff who had either retired, absconded or died. These payments were made for services not rendered to the LGs, hence possible loss of funds to Government)[1]. *It is such ratings and scores that affect the country's access to funding that need to be addressed.*

Scores overtime



Under absorption of loans

While public debt has continued to take on an upward trajectory, (for instance from UGX. 56trillion as at June 2020 to over UGX.65 trillion as at March 2021) one of the main reasons advanced for the ever increasing debt has been infrastructure development, including roads.

The Auditor General also noted in his report for the year ended 30th June 2020 revealed that several loans worth **UGX.1.3 trillion** appeared to be performing poorly, with some nearing expiry, while others reached the closing date without fully disbursing.

A total of **EURO.2, 211,284.7 (approx. UGX.9,241,334,679)** had been paid in respect of three loans as commitment fees for the undisbursed funds.

The energy sector was most affected due to the recurring unresolved land compensation issues affecting project implementation.

Other examples are

i) The Busega-Mpigi &Kagitumba-Kayonza Rusumo roads project (2016-2020) where by 30th June 2019, only 0.69% of the project approved loan amount had been disbursed, therefore the undisbursed amount was 99.3% yet the project closing date was December 31st 2020. The delayed implementation of this project led to accumulation of a total UGX.4,189,238,814 in project service charges by June 2019, since inception(2016)

ii) The East Africa Public Health Laboratory Networking Project (2016-2020) USD. 9,683,037.18 was available for spending during FY 2018/19, only USD. 4,191,998 was spent, resulting in a total of USD.5,491,038.64 not utilized by the end of the year. Most of the activities for which the funding was earmarked were not completed before the project closure on 30th March 2020.

[1] AUDIT REPORT ON PAYROLL MANAGEMENT IN LOCAL GOVERNMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2021

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