Weekly Edition

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DEBT CANCELLATION CRITICAL FOR UGANDA TO ATTAIN SDGs

1. PREAMBLE

Courtesy Africa Renewal

Like many other Low -Income Countries (LICs), Uganda's meagre Gross Domestic Product of $34 billion by end of 2019 against an estimated 42 million people, the COVID-19 situation has eroded the economic growth capacity and livelihoods, which have heightened the abject poverty and vulnerability conditions that have currently affected (by August 2020) nearly 12 million people from 8 million by end of 2019.

It is, therefore, urgent that serious actions are taken ***including debt cancellation of outstanding debt for Uganda owed to Multilateral Financial Institutions (MFIs)*** such as AfDB, WBG and IMF as well as G.20 Nations and bilateral creditors especially China; for Uganda to trace back the pathway to Sustainable Development Goals (SDGs).

2. UGANDA IS A STORY OF OTHER LICS

One key measure to Debt sustainability is the ratio of Debt-to-Tax revenues of a country. In-other-words, this measure concerns itself with the scale of liquidity risk, by a simple focus on extent of a country's domestic revenue being used for servicing of Public debt. The shortfalls of the IMF- WB Debt Sustainability Framework (DSF) notwithstanding, the External Debt- to- Domestic revenue threshold should never be more than 23%. ***Alas, in the case of Uganda for every five shillings of domestic revenues, one shilling was being lost to interest payment alone by FY 2018/19.***

Thus, overall debt servicing (i.e. principle, interest, administrative costs, commission charges and other hidden costs by Lenders) have over a sample fiscal period (see Table 1 : Right) of FY 2015/16 and FY 2022/23 eroded further the country's domestic revenue capacities to prioritize service delivery outputs and eventual outcomes to the citizens.

Table: 1 Sample of Debt Service

As a % of Total Tax revenues	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Debt Service	18.1	21.9	21.8	23.0	27.3	26.1	27.6	29.0

Source: Bank of Uganda (Monetary Policy Report, June 2020)

Indeed, over the time horizon, LICs such as Uganda have become workhorses especially for the global north patrons and MFIs- owned institutions. Already, with Uganda at 27.3% of the DSF acceptable Debt: Domestic revenue ratios in FY 2019/20, the threshold was officially long surpassed (other analyses show even much earlier in consideration of entire huge public debt that tends to oftentimes be under declared).

With the dawn of COVID-19 the worsening of DSF standard can only be for Uganda over the medium-term (i.e. up to about FY 2024/25). Uganda's debt service (principle, interest, associated costs) is increasing while the domestic revenue capacities have deteriorated until further notice. Meanwhile LICs should also fight corruption.

3. POLICY OPTIONS

1) Presidents of LICs such as Uganda must call for revisiting of loan contracts and negotiations for a new lease of breath in external debt; including debt cancellation urgently and initially by AfDB, WBG, IMF, G.20 Nations and bilateral lenders especially China.

2) For LICs such as Uganda to come to footing once again, it's incumbent on both Creditors and Borrowers to urgently work out feasible mechanisms for global, continental and country economic survival, including external debt cancellation of outstanding debt for LICS and Uganda.

To watch the UDN Anti-corruption advocacy message, please click on the link https://youtu.be/_SfrKRq9jp0

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