Weekly Edition

Vol: 375

10th-14th May 2021

INFRASTRUCTURAL DEVELOPMENT FINANCING NEED NOT ENMESH GOVERNMENT IN A DEBT TRAP.

1. PREAMBLE

In 1998, under the Highly Indebted Poor Countries initiative (HIPC) spearheaded by the World Bank and International Monetary Fund (IMF), Uganda received $650m debt write off by its external creditors and another $1.3 billion debt relief in early 2000s to allow the country channel its resources to fight against poverty. But rather than tame our borrowing appetite, this debt relief gesture instead opened a window for unfettered borrowing. This trend was especially premised on infrastructural development for projects like building express highways, maintenance and rehabilitation of existing road networks, construction and rehabilitation of major hospitals, energy/power generation stations, among others.

This is of course not to downplay the fact that there has also been continuous substantial borrowing to finance social sectors, which exacerbates the problem. Uganda's appetite for borrowing has been increasing tremendously, debt stock soar to near unsustainable levels and with projects punctured with Corruption, project delays, poor absorption of loan funds and stringent loan terms that favor creditors' home companies to implement the projects.

2. COSTLINESS OF CONSTRUCTION PROJECTS

A review of the loan releases by the Auditor General discovered that several loans appeared to be poorly performing with some nearing expiry while others had reached the closing date without fully disbursing the funds. Between FY2017/18 to FY2021/22, government has spent more than UGX15 trillion on mainly design, compensations and construction of infrastructural projects.

For example, the 17.5km Kampala Northern Bypass Road Project which was funded by European Union, European Investment Bank and Government of Uganda, was meant to last 5years. But it has had at least 3 different contractors in a row in a span of 14 years and still seems to have a long way to go before completion. Such delays have negative implications including cost overruns, disrupting business, inconsistencies in accountability Centre's, environmental degradation, compromise in quality, legalistic battles, and stakeholder frustration.

The Busega-Mpigi and Kagitumba-Kayonza Rusumo road projects were flagged off in 2016 but as at end of June 2019, only 0.69% of the approved project loan amount had been disbursed. By 31 Dec 2020, the time when the project should have closed 99.3% of the loan amount had not been touched. This implementation delay had resulted into accumulation of UGX 4.1billion in project service charges by June 2019.

3. UGANDA NEEDS ALTERNATIVES TO INFRASTRUCTURE FINANCING

Over the last three years, sovereign debt has neither led to optimal growth dividends nor per capita capital accumulation as would have ordinarily been anticipated. If Government is borrowing for huge public investment and expenditure say in infrastructure development, these should be able to create increased revenue yield, which translate into increased per capita income and citizens' improved scale of effective demand.

Uganda has faced either a stagnation or expanding deficit in these simple parameters, since many development projects are long-term yet debt repayment usually commences in the short to medium term. It has become a norm to witness an escalating liability in loan repayments that fall due, without immediate and corresponding rises in national income accruing from infrastructure development constraining national cash-flow. This calls for alternatives to Uganda's infrastructure financing.

4. RECOMMENDATIONS

1) Government should look into solving the issue of project delays which in turn affects disbursement of project funds.
2) We encourage government to strike a balance between infrastructure and social development, as spending on social sector has the potential to put back the economy on a sustainable growth path.
3) We encourage government to fairly and justly broaden the tax base as a means of increasing its local revenue collections.
4) Government should look into supporting indigenous entities or even directly the Ministry of Works under Force account modality of service delivery to undertake some infrastructural projects.

5. CONCLUSION

We recognize that almost all nations cannot entirely depend on their own resources and borrowing is an acceptable alternative to bridge the Fiscal deficit gaps. However, we recommend that each of these borrowing options should always be carefully considered and executed meticulously in such a way that rather than dent the economy the more, borrowed funds should be able to spur growth and development. That way Uganda will naturally avoid being caught up in an unsustainable debt trap.

UDN appreciates support by: UDN Membership; DCA; Save the Children in Uganda; OSIEA, Inspectorate of Government; IBP, Trocaire and DGF.

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