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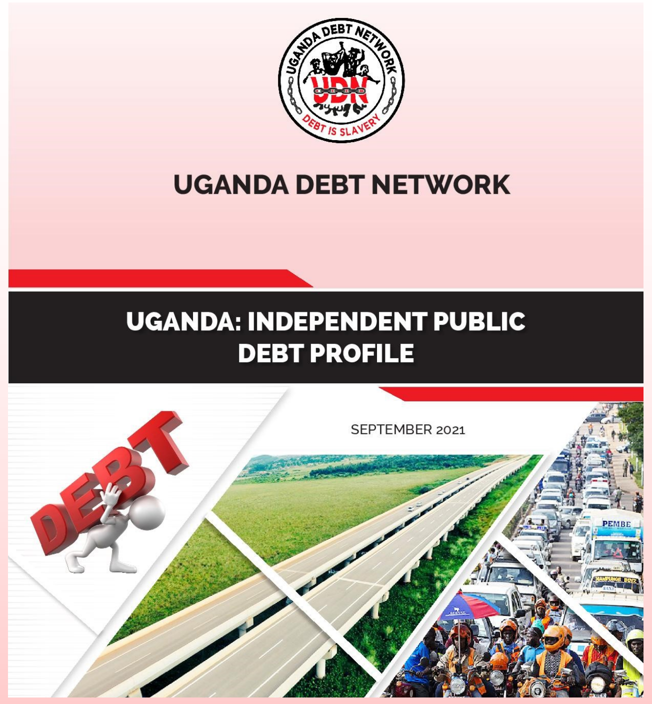
DEBT TRAPPED? RECONSIDER REVENUE MOBILIZATION OPTIONS TO SUSTAIN SERVICE DELIVERY



1. Preamble

From December 2019 to-date, the COVID-19 pandemic globally has continued to, in varying proportions and waves, wreck havoc in different countries. While some effects of the pandemic are generic across almost all countries, some regions, countries or communities due to their peculiar nature, especially in Low Income Countries, have been more affected than others. In the East African Region for example, Covid-19 has exacerbated the pre-existing conditions, including their economic functions, debt portfolios, lives and livelihoods of their people. They contracted nearly $2.3 billion new loans in less than three months after the first COVID-19 positive cases were reported. With the Covid-19 related lockdowns and business shrinking or total collapse, tax revenue collection drastically dropped both at macro and micro level for all the countries including Uganda.

With support from OSIEA, UDN undertook an independent research on Uganda's public debt and findings corroborate with other pundits who note that the country has not just sustained but rather escalated her borrowing trend to date. The increase in the pace of borrowing has heightened the risks and vulnerabilities associated with the debt trajectory, resulting in a shift in categorization from low to moderate risk of debt distress for the country which is already revenue constrained, one of the considerations for unsustainable public debt.

3. The Cost of Public Debt

Above; Hon. Stephen Mukitale conducts a session during the training MPs of 11th Parliament on Debt Management in Oct 2021.

The cost of debt is largely determined by; the average Interest payments, maturity period of the debt. Interest payments as a percentage of GDP continued to rise, from 1.8 percent in the FY2016/17 to 2.3 percent in FY2020/21. This is brought about by increased accumulation of both domestic and external debt. Domestic interest payments continue to form the bulk of interest payments (78.3 percent of total) owing to the high interest rates associated with domestic debt compared to external debt.

On average, yields on government securities have reduced overtime in part reflecting increased reduced confidence and reduced economic and financial uncertainty. At the shorter end, the 91-day, 182-day and 364-day Treasury bill rates declined to 8.7 percent, 10.3 percent and 12.1 percent, respectively in FY2019/20 from 10.7 percent, 11.8 percent and 13.6 percent respectively in FY2016/17.

For longer term for yields on 2-year, 3-year, 5-year, 10-year and 15-year Treasury bonds also moved to 13.5 percent, 15.3 percent, 15.4 percent, 14.8 percent and 14.2 percent in the FY2019/20 from respective rates of 12.8 percent, 13.2 percent, 14.2 percent, 15.9 percent and 15.1 percent in the FY2016/17 (Table 3-1). This reflects significant volatility in the financial markets.

The average interest on external debt has increased to 1.4% in FY2019/20 from 0.8% in FY2017/18 and 0.9 percent in FY2018/19. The increase in external interest is mainly due to increased contraction of debt on non-concessional / commercial terms and reduced grant element in the new loan arrangements. At the same time, the average repayment period has reduced to 26.8 years in FY2019/20 from 28.2 years in FY2016/17.

Details of UDN's independent public debt profiling report can be found here:

https://www.udn.or.ug/download/uganda-independent-public-debt-profile/

5. Recommendations/Conclusion

Given this untenable state of affairs occasioned by uncontrolled debt appetite and the impact Covid 19 has had on the economy generally, UDN is of the considered view that if we still care about social service delivery, we need to tame our appetite while at the same time seeking revenue mobilization options. To that end the following are some of the recommendations we make:

1) Increasing domestic revenue mobilization, by simplifying the registration process for businesses, leveraging new technologies to modernize the tax collection system, deepening regional integration and tax coordination, are necessary elements of a broad-based strategy to broaden the tax base. Measures to design new tax codes, digitization of tax systems, including capacity to levy taxes on e-commerce and related transactions should be undertaken.

2) Creating fiscal space also requires assessing all public spending to ensure not only that it is directed towards improving productivity but also that it is aligned to the achievement of the SDGs. Additionally, governments will need to leverage public-private partnerships to enhance resource mobilization and investment in priority areas.

3) Concessional borrowing should continue to play an important role in financing investment projects due to its lower cost and longer maturity profile, while non- concessional borrowing should be limited to financing those projects with high social and economic returns.

UDN IN THE MEDIA

1) Uganda nears Debt Crisis

https://www.youtube.com/watch?v=hnuTuuqegRg

2) Challenges remain to Uganda's Debt Sustainability

https://www.youtube.com/watch?v=8VXXgg8uxYk

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