UGANDA DEBT NETWORK — DEBT IS SLAVERY

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DEBT SERVICE; A TRADE OFF FOR FUNDING TOWARDS SOCIAL PROTECTION

1. UGANDA'S PUBLIC DEBT PORTFOLIO

Uganda's debt has been increasing recently, raising concerns about whether the country's debt will be sustainable in the medium and long term due to ongoing revenue shortfalls and the need to finance the widening fiscal deficit.

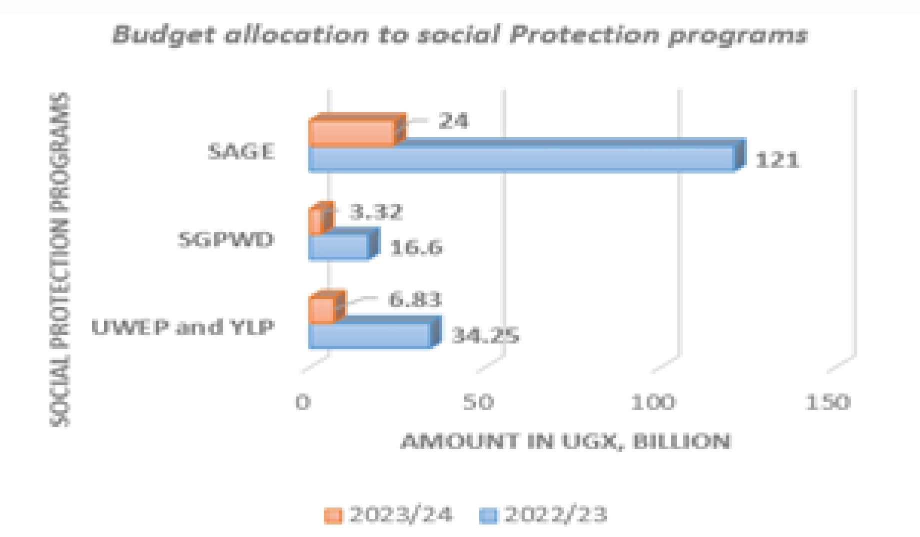
Total public debt has increased by 109% from UGX. 41.4 trillion as at June 2021 to UGX 86.6 trillion as at June 2022 (OAG, December 2022). 62% of the total public debt is External while the rest of the debt has been acquired form the Domestic Market.

Uganda's External debt is largely owed to multilateral creditors whose loans are largely concessional in nature however their credit composition in the total external debt has reduced from 74% in 2016/17 to 62% in FY 2021/22. On the other hand, the percentage composition of loans owed to commercial banks (largely non concessional) in the total external debt has increased from 2% in 2017/18 to 10% in 2021/22. This has contributed to an increase on debt service repayments and a reduction in funding towards discretionary allocations in the National Budget over the years.

2. DISCRETIONARY BUDGET ALLOCATION VERSUS DEBT SERVICE REPAYMENTS

In FY 2023/24, GoU Discretionary Resources will decrease by 10% from UXG 25,401.9 bn in 2022/23 to UGX 22,868 bn. This is expected to affect service delivery as allocations to key programs have experienced serious budget cuts. For instance, budget allocation to Social Protection (SP) interventions like Social Assistance Grant for Empowerment (SAGE) is expected to reduce to Ugx 24 bn in FY 2023/24 from Ugx 121 bn in FY 2022/23 indicating an 80% budget cut towards Uganda's largest cash transfer programme targeting older persons aged 80 years and above currently serving a total of 306,516 older persons are across the country.

Budget cuts under social protection interventions are showed on the graph below;



Source: Uganda Parliamentary Forum on Social Protection

As showed on the graph, in FY 2023/23 Special Grant for the People with Disability (SGPWD) will decrease to Ugx 3.32 Bn from Ugx 16.6 Bn in FY 2022/23 while funding towards Uganda Women Entrepreneurship program and Youth Livelihood Program will reduce to Ugx 6.83 bn from 34.25 bn over the same period.

This undermines Government efforts of not only implementing the National Social Protection Policy (2015) whose goal is to "reduce poverty and socio-economic inequalities for inclusive development by 2024" but also meet the SDG target 1.3 which aims at "implementing nationally appropriate social protection systems and measures for all, including floors, thus achieve substantial coverage of the poor and the vulnerable by 2030".

Unfortunately, Uganda's exposure to social risks is very highly negative (S-5 issuer profile score), driven by poor access to basic services, low education standards, and high levels of poverty (Moody's, November 2022).

3. DETERIORATING DEBT AFFORDABILITY DUE TO GROWING DEPENDENCE ON NON-CONCESSIONAL FINANCING

The decrease in the budget for discretionary allocation is largely due to increase in interest payments from Ugx 4691.9 in FY 2022/23 to Ugx 6,135.5 in FY 2023/24. Moreover, 85.2% of the total allocation towards interest payments in FY 2023/24 will cater for Domestic interest payment while 14.8% will cater for foreign interest payments (National Budget Framework Paper 2023/24). This is largely driven by acquisition of debt on non-concessional terms and also accumulation of domestic debt that has shorter time to maturity.

Indeed, in November 2022, Moody's affirmed the B2 long-term foreign and local-currency issuer ratings and downgraded Uganda's outlook from stable to negative outlook. Negative outlook reflects the Country's increasing external vulnerability risks due to expensive loans, rising debt repayment and decline in foreign reserves among other factors.

Furthermore, under Environmental, Social, And Governance (ESG) considerations Uganda's ESG Credit Impact Score is highly negative (CIS-4), reflecting high exposure to environmental risk, very high social risk and very low resilience, reflecting a weak governance profile, low wealth levels, and weakening fiscal metrics that exacerbate the exposure to environmental and social risks. (Moodys Research- changes & outlook on Ugandas rating)

4. UDN RECOMMENDATIONS

1) Improvement of revenue mobilization capacity through implementation of the new Domestic Mobilization Strategy 2019/20 – 2023/24 to finance the fiscal deficit and reduce (and subsequently eliminate) reliance on expensive funding. This will improve on Government debt indicators thus ability to acquire sustainable cost of funding.

2) Implement the Public Investment Financing Strategy (PIFS), whose objective among others is to improve the alignment of government programme to suitable financing options like leveraging additional financing from traditional (like concessional financing from multilaterals) and other innovative sources to meet the increasing development requirements.

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EDITORIAL TEAM:

Gilbert Musinguzi - gmusinguzi@udn.or.ug; Priscilla Naisanga- communications@udn.or.ug; Hilda Tumuhe– htumuhe@udn.or.ug

Please visit/ talk to us at; Uganda Debt Nework ,
P.O. Box 21509, Kampala -Uganda,
Plot 153/155 Ntinda—Nakawa Road , Tel +256-414-533840/ 543974
Website: www.udn.or.ug