PRESS STATEMENT

CSOs CALL FOR PUBLIC DEBT TRANSPARENCY AND ACCOUNTABILITY IN UGANDA

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We, Civil Society Organizations (CSOs) working towards enhancing prudent and transparent debt acquisition and management would like to share our views and proposals in regards to Public Debt Transparency and Accountability in Uganda.

With public debt levels rising in Uganda and the changing Debt composition, there has been a shift away from concessional debt toward market-based sources of financing, such as planned non-concessional loans, as well as semi-concessional Paris and non-Paris Club creditors which has made public debt more vulnerable to interest rate fluctuations and rollover risk over the medium term especially in the investment into huge infrastructural projects etc. Debt transparency is critical for providing accountability to the general public, enabling informed decisions by Government, as well as investors to understand borrowing trends.

We commend Government of Uganda for putting in place debt management policies and frameworks such as; Public Debt & financial liabilities Framework FY2018/19 –FY2022/23, Public Debt Management Framework FY2018/19 –FY2022/23, Charter of Fiscal Responsibility FY2021/22-FY2025/26, Medium Term Debt Management Strategy FY2022/23, Public Finance Management Act (2015) as well statistical bulletins that have been shared on the Ministry's website.

With regard to this, we do note that Debt is eating a huge pie of the country's revenue. The adverse effect of this level of borrowing is felt through interest payments of over UGX 5.5Trn in FY2022/23 rising from UGX 2.4Trillion in FY2017/18. This is coupled with external debt repayments that are projected at UGX 2.4Trillion in FY2022/23 rising from UGX 589 Bn in FY2017/18. This takes a first call on the revenue collection and as such reduces funds available for service delivery. Uganda's tax to GDP ratio of 13% and huge tax expenditures have resulted into foregone revenue of UGX 21.5 Trillion in only 5 years from FY2016/17 – FY2020/21.

The heightened liquidity pressures experienced in Uganda from external public debt are aggravated by heavier reliance on domestic debt, more semi and non-concessional borrowing which has led to heightened liquidity vulnerabilities in Uganda.

Our Observations;

- ***<u>Debt Transparency;</u>*** While Uganda publishes reports on status of *Public Debt, Guarantees, Other Financial Liabilities and Grants*" annually, the reports about performance/ outcomes of Debt-funded projects seem to be under "lock and key". There is need for Government to ensure investment in projects with high returns especially publishing mid-term review reports of loans to avoid accumulation of non-performing loans.

There has been growing concern in lack of transparency in publicly guaranteed debt, debt arrears, contingent liabilities etc. Collateralized public debt aggravates further such fiscal risks as it often remains hidden from the public and even from parts of government due to widespread misreporting or limited disclosure due to vested interest capture.

Besides Government publishing debt statistics there is need to publish arrears.

- **Debt acquisition and approval;** There has been weak appraisal and approval system of Government and parliament respectively. While Article 159 of the Constitution and Rule 155 of the rules of procedure empower parliament to approve all forms of borrowing and guarantees, its scrutinizing mechanisms are weal and damaging to the economy. Parliament's oversight to undertake scrutiny of the terms and conditions of the borrowing. This has caused approval of unfavorable borrowing conditions especially for Chinese loans.

  We are aware most of the loans approved by Parliament should be ascertained by Development committee and has affirmation from the Secretary to Treasury that feasibility studies and appraisals have been undertaken. Unfortunately, some loans have been approved without satisfying these conditions particularly for contract financing. Also, loans for ongoing projects seeking additional financing are approved without scrutinizing their midterm or end of project evaluation reports. These circumstances arise mainly due to political influence and poor planning. These factors among others are contributing to the unsustainable public debt trajectory.

  Approval process at times has also been seen to be rushed and Parliament's scrutiny into the loans has been limited. Unsafe public debt contraction and accumulation, towards stemming the risks of possible deterioration in the fiscal positions of the country and living standards of citizens.

- **Debt accumulation and utilization;** According to the Office of the Auditor General's report (2021), specifically regarding the cash inflows and expenditures of externally funded projects revealed poor absorption and performance of the projects. Out of UGX.9,515.3Bn that was appropriated by Parliament, only UGX.4,516.5Bn (47%) was released. Relatedly, absorption of externally funded projects further declined in the year under audit. Out of the UGX.4,516.5Bn Disbursed for donor-funded projects, only UGX.2,937Bn was spent, representing 65.0% as compared to the 71% observed in the FY2019/20.

  High commitment fees are generated from undisbursed loans due to the low levels of absorption of borrowed funds which have resulted into the cost of debt rising. This has further eroded resources available to undertake critical socio-economic programmes envisaged under the National Development Plan III.

  Information on debt utilization should be transparent as well as the Public Private Partnerships (PPPs) contracts entered by Governments.

Who should be held accountable?

- ***Government;*** Relevant MDAs such as Ministry of Finance, Office of the Auditor General (advising Government) etc. Although government has developed a domestic revenue mobilization strategy, this appears not to be in harmony with the spending, raising concerns of sustainability. COVID-19 has also led to additional expenditure pressures, which necessitated increased borrowing leading to ***Debt servicing at the expense of social services to the people.***

- ***Policy Makers;*** Parliament has an oversight role in the approval and acquisition process as well as scrutinizing projects (value for money).**Simultaneously, there has been;** high wasteful expenditure, huge Recurrent and high rates of corruption, with low revenues collected to service the debt acquired. This has widened the fiscal gap and increased the rate of debt accumulation.

- ***Lenders;*** Play a role in ensuring responsible lending through providing transparency of loan terms and agreements, as well as around procurement of projects financed by their loans. Uganda's main lenders differ considerably in their general level of transparency, and none of the main lenders rate highly on procurement-related transparency. The World Bank is currently trialing a transparency initiative based on providing beneficial ownership information in relation to procurement.

Call to action

Government should;

- ***Enhance transparency;*** During acquisition of loans so as to improve accountability for the acquired loans as well as economic linkages. Additionally, there is need to eliminate opaqueness in tax expenditures and incentives by sharing information publicly, reducing tax holidays to ensure revenues are not spent highly in debt servicing costs but on service delivery. ***Publish and guarantee access to public debt information:***

- ***Minimize confidentiality clauses and where permissible publish contracts;*** Confidentiality clauses preserve not only market-sensitive information, but also prevent the publication of key terms and conditions of loans. The latter limits the completeness of the debt reports and affects their credibility. One possibility is to include exceptions to non-disclosure provisions in debt contracts, allowing the parties to comply with them by disclosing key terms and conditions irrespective of confidentiality clauses. This could be enhanced by the addition of a disclosure annex.

- ***Publish a section on collateralized debt in the Annual Debt Reports.*** The reporting on collateralized Loans would further benefit from including a section on collateralized debt, which would enable a better understanding of fiscal risks. Considering Uganda's push in oil production and exports, the possible existence of collateralized debt represents a significant uncertainty for the audience of the debt reports.

- ***Create a Centralized data system on Debt (e.g. Debt Register);*** In addition to new sources of financing, debt management is further complicated by contingent liabilities. Across the world, the latter has turned increasingly into explicit budget obligations due to the impact of a pandemic-induced shock on past State-Owned Enterprise (SOE) borrowing and public private partnerships (PPPs).

- ***Channel information to the citizens on Debt;*** There is still limited appreciation of citizens understanding on debt matters as well as the reporting by media on debt is limited. There is need to bring more awareness and understanding on debt matters.

- Parliament should ensure value for money for the loans borrowed so as to avoid wasteful expenditure.

Editor's Note:

- Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI) Uganda is a Non-Governmental Organization that works to promote pro development trade, fiscal and related policies for sustained equitable development and improved livelihoods in Uganda and the East African Community region.

- Uganda Debt Network (UDN) is a national policy advocacy organization that promotes and advocates for poor and marginalized people to participate in influencing poverty-focused policies, demand for their rights and monitor service delivery to ensure prudent, accountable and transparent resource generation and utilization.

- Transparency International Uganda (TIU) is a national chapter of Transparency International– The global coalition against corruption. TIU is a registered NGO with the Uganda NGO Bureau contributing towards a corruption free Uganda where the citizens actively condemn corruption and demand for accountability while leaders and public officials uphold the principles of good governance.

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