The Central Bank of Uganda Comes Clean About Looming Debt Distress

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Uganda has finally admitted that there is an increasing likelihood that the country will default on its debt obligations. The (Central) Bank of Uganda issued the warning in the first quarterly State of the Economy Report of 2018. The public external debt has trebled in the last three years.

The Bank of Uganda's report would appear to be in contradiction to the wild optimism (or cynicism) of the International Monetary Fund. The IMF painted a different picture in their Debt Sustainability Analysis [1] not so long ago, on 16 December 2016 to be precise. The analysis is based on the three years up to July 2016 and looks forward to the current phase. According to them, Uganda was at a low risk of debt distress.

The IMF relied on three key arguments to explain why Uganda's steeply rising indebtedness was not a cause for concern to them. They then summarised the situation as follows:

Risk of external debt distress:	Low
Augmented by significant risks stemming from domestic public and/or private external debt?	No

Given their in-depth knowledge of Uganda's economy and political economy, the IMF can only be said to be being wilfully ignorant of the facts on the ground. To begin with, their Debt Sustainability Analysis came out in the same month as the Auditor General was reporting that interest on domestic public debt (borrowed from Ugandan banks) was pushing Uganda's debt burden over the boundary of sustainability. [2]

The arguments the IMF advanced were;

1. Uganda is in a phase of scaled up public investment to lay the foundation for future growth
2. Uganda's economic performance remains strong, but has moderated in recent years.
3. Government finances remain on a sound footing, though expenditure composition can be of concern.

Examining each argument more closely shows that the analysis does not apply to Uganda, it is more of a wish list than a report of actualities.

1. Uganda is in a phase of scaled up public investment to lay the foundation for future growth

Scaling up public investment, for example by building an international airport in the oilfields of Bunyoro, is marketed as a plan to increase efficiency in business.

At the root of inefficiency at least over the past two decades has not been a lack of borrowed funds but corruption and incompetence. The Auditor General reports that there are large amounts of unutilized borrowed money on which interest is being paid. Top of the Auditor General's list of 'key issues' in his report for 2016 is the fact that "several loans appeared to be performing poorly, with some nearing expiry; while others reached the closing date without fully disbursing. As at 30th June 2016, committed but un-disbursed debt stood at UGX 18.1 trillion [approximately US$5 billion].Such low levels of performance undermine the attainment of planned development targets and render commitment charges of UGX20.9 billion (USD5.9 million) paid in respect of undisbursed funds nugatory [i.e. wasteful or of no value]. In other words, borrowed funds were not being put to use.

Further on in his report, the Auditor General points out that the Agricultural Credit Facility started in 2010 has only disbursed 44% of the funds available to farmers. 85% of Ugandans depend on farming for their livelihood and farmers continue to be the engine for national survival, never mind growth. Their urgent needs, according to the last budget speech, include; irrigation systems, planting material and post-harvest technologies to preserve, process and transport their produce. That they have utilised only half of the available credit needs examination.

In local government, eighty-four districts failed to utilize UGX18 billion (US$4.9 million) while fourteen municipal councils were unable to spend UGX95 billion (US$25.9 million) of the Capacity Building Infrastructure Fund.

2. IMF: "Uganda's economic performance remains strong, but has moderated in recent years."

In the 1990s Uganda was the poster child for development with 6 — 7% annual growth. Today's 3.9% is still considered strong. Less growth, lower commodity prices, increased borrowing, increased corruption and increased civil unrest. AOK according to the IMF.

3. IMF: "Government finances remain on a sound footing, though expenditure composition can be of concern." Elsewhere the analysis states, **"Strong project selection and implementation frameworks will be key to the success of the authorities' strategy**, as well as fiscal consolidation once large infrastructure projects are completed, including by boosting domestic revenue mobilization.

This takes us to the heart of the matter. The national economic development plan might have a chance of succeeding if decisions are made with a view to furthering the national interest. However, project selection is not necessarily based on the best interests of the country.

Because major infrastructural projects involve procurement from abroad of nearly all the inputs required, Ugandan leaders habitually accept bribes to select not the best deal for Uganda but the bidder paying the largest bribe for the tender. The new airport is to be built by British companies making use of a credit facility made available to them in order to boost the British economy. Whether this was the lowest cost alternative or even the best technical proposal bears auditing in the national interest.

Recent revelations regarding the Chinese entity CEFC transmitting US$500,000 to an account designated by Uganda's minister of foreign affairs in return for business favours have confirmed what has been known all along.

The favours including the allocation of oil sites and the purchase of a bank, an open-ended references to smoothing Chinese passage through customs, the gift of an enterprise zone (preferably an entire island) on which to build a Chinatown and others are of the sort that have bled the economy dry.

It is telling that Patrick Chi-ping Ho, the official who transmitted the bribe is under arrest in Manhattan; his boss Ye Jianming, the owner of CEFC has had his shares confiscated in China and is under investigation for corruption. It is only the African leaders implicated, Uganda's foreign minister, and the presidents of Chad (who received US$2 million) and Uganda (who was promised 'nice gifts' and joint ventures in Chinese enterprises according to intercepted e-mail) who do not seem to be persons of interest to any law enforcement authorities at this time.

The second point of concern is what proportion of the loans will be used for the projects and what proportion will be banked on private accounts in the Seychelles, Cayman Islands, London, Paris and New York? Given the leakages revealed in the Auditor General's report and past financial scandals, the IMF is being cynical when it states, "Government finances remain on a sound footing [….]"

Increased borrowing for infrastructural development will not necessarily lead to i. successfully completed projects or ii. greater efficiency. Examples of failed projects abound. For example Government's partnership with an investor to build and operate for thirty years the Bujagali Falls dam. The first contractor became insolvent and abandoned the project. Bujagali was eventually completed but generates power sold at tariffs 80% higher than internationally accepted rates. So much for increased efficiency.

In its own evaluation, the World Bank admits that together with the government of Uganda, they failed to ascertain the capacity of the contractor to deliver on Bujagali. Further management failures they identified include inadequate appraisal of the design, inadequate attention to economic analyses and consideration of other power supply options.

There have been similar scenarios in the transport sector. A major road under the Transport Sector Development Project was canceled owing to incompetence on the part of both the project designer and supervisor (the World Bank) and the borrower. US$176 million out of the US$190 million had already been disbursed.

In the health sector, the sector report in the late 1990s showed that health units built to serve rural communities often remained unoperational for want of personnel and/or other requirements. This is still the case today in Ntungamo where seven such units have not been commissioned. They either remain idle or are rented out. Without addressing the underlying pathology in Uganda's economy, no amount of borrowing and spending will change the quality of life of the citizens.

The risks the IMF is willing to admit to are not small and are well on the way to becoming fact. They say, "Weak exports, exposure to exchange rate depreciation, and low revenues as well as the short maturity of domestic debt pose risks to debt prospects."

At the time of writing, the price of coffee is on a steep downward trend that has persisted for a year. That the central bank has made public the dire straits in which Uganda's economy languishes can only be a good thing.

Mary Serumaga

P.S.

CADTM
http://www.cadtm.org/The-Central-Bank-of-Uganda-Comes

Footnotes

[1] Uganda, Debt Sustainability Analysis, Approved by Roger Nord (IMF, AFR), Zuzana Murgasova (IMF, SPR), and Paloma Anos Casero (IDA) 16 December 2016

[2] Extracts of the Summary of Key Findings of the Annual Report of the Auditor General for the Year Ended 31st December 2016, page 2. paragraph 4.0.