Debt Sustainability Analysis

National Consultation - Uganda

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The workshop proceedings and conclusions

Background

Unsustainable debt has contributed to the social problems facing the Highly Indebted Poor Countries (HIPCs) and non-HIPC countries alike. Not only has it slowed economic growth, it has also restricted the "fiscal space" available for investment in basic services with excessive debt servicing undermining access to social services. The effects of unsustainable debt continue to include, among others, the diversion of foreign exchange and import capacity, the drain on domestic savings and, in due course, limit the government's capacity to finance investment in social and economic infrastructure. Furthermore, it increases uncertainty over exchange rate stability, with adverse consequences for domestic and foreign investment. Consequently, international aid continues to be diverted from poverty reduction priorities to debt repayments.

It is a well-known fact today that unsustainable debt has a negative impact on investment, growth and development and remains part and parcel of the poverty problem. The empirical evidence provided since the early 1990s of a debt overhang in many of the poorest and highly indebted countries led to the adoption of the Heavily Indebted Poor Country (HIPC) Initiative in fall 1996. More recently the Multilateral Debt Relief Initiative (MDRI), whose main goal is of reducing debts of the poorest countries to a level that would allow them to permanently exit the process of repeated debt rescheduling, was adopted.

It was against this background that AFRODAD and the Uganda Debt Network hosted a national workshop to provide a forum for Civil Society Organsations (CSOs), government officials and International Financial Institutions (IFIs) officials to dialogue and identify sustainable solutions to the Debt question in Uganda. The meeting, which met under the theme **"**Debt Sustainability – which way for Uganda" was held at the Hotel Africana in Kampala, Uganda. It attracted 27 participants comprising the government, civil society organizations, Members of Parliament and members of the media. It was geared towards creating a multi-stakeholder forum for finding a lasting solution to Uganda's debt problem. The meeting benefited from both the research findings and wealth of knowledge and expertise from AFRODAD and the speakers during the meeting.

The dialogue sought to achieve the following specific objectives:

1. To share the research findings on the status and trends of debt sustainability in Uganda
2. Propose the way forward for Uganda's debt levels in the midst of Vulture Funds and high oil prices and achieving the MDGs
3. Discuss how various stakeholders can play their respective roles in the process
4. Make recommendations on how to improve the study

Opening Remarks – Ms Martha Nanjobe

In her opening remarks, the Uganda Debt Network acting executive director called for the need to refocus on debt sustainability despite Uganda having benefitted from all the debt relief mechanisms. She observed that a strong debt management strategy was key in this process if Uganda was to permanently exit from unsustainable debt level. Turning to the documents of discussion, the speaker challenged the participants to focus their discussions beyond the research findings and make the linkages between the debt sustainability levels with the current poverty levels in Uganda. In this regard she pointed out that there was a need to examine past actions on debt management to address the current and future mechanisms for debt management and their effort to bring about development. The speaker noted that the study was a CSO contribution to addressing the debt problem in Uganda and Africa at large. In making observations around the study, the speaker observed that among other things, the study outlines included the emerging challenges and best cases in the field and the need for strong regulatory mechanisms and policies to address debt sustainability levels.

Turning to development issues, the speaker highlighted corruption as one of the key challenges to debt sustainability levels in Uganda. Debt relief resources, she noted, had little to show on poor households living conditions. Debt relief resources had been used on bad projects, which had failed to lift people out of poverty. She concluded her remarks pointing out that the solution to Uganda's debt problem lies in both institutional and systemic framework reforms.

Official Opening   Hon. Geoffrey Ekanya, MP

Representative of Speaker of Uganda's Parliament

In his opening remarks, the Speaker of Parliament's representative, Hon Geoffrey Ekanya, thanked AFRODAD for the partnership it continued to have with the Uganda Debt Network. He noted that good governance coupled with legal and systemic framework is vital to achieve debt sustainability levels.

He challenged the participants to examine closely the factors that caused distortion in the debt sustainability levels. Debt sustainability would remain a mirage as long as the domestic debt problem was not addressed and was causing development problems and harm to many poor households as failure by government to pay the arrears on domestic debt had denied them their pensions and pushed up interest rates. Other factors that affected Uganda's debt sustainability levels included the emerging lenders in Uganda and increased borrowing from the bond market by the government. The speaker noted that ecological debts should also form part of the debt sustainability calculation formula. He observed that Uganda's environment was under a lot of stress because of the economic growth patterns propagated by the neo-liberal agenda. The meeting was therefore timely and important to Uganda as the country was in the process of reviewing the debt sustainability analysis policy.

Workshop Objectives - Vitalice Meja AFRODAD

In setting the tone for the meeting, AFRODAD's Lobby and Advocacy Director, Vitalice Meja, thanked the government of Uganda and the Uganda Debt Network for agreeing to host the meeting. He noted that it was the objective of AFRODAD to encourage dialogue between CSOs and government on national development issues. He observed that based on emerging trends across the continent, AFRODAD had commissioned four country studies in Ethiopia, Rwanda, Ghana, and Uganda to examine and identify the contribution of the HIPC and the MDRI programme in the context of assessing the debt sustainability scenarios in the context of the current endogenous and exogenous shocks. The studies heavily relied on the stock taken on the experience of the implementation of the HIPCs and MDRI by the countries under study and the challenge of meeting and sustaining the thresholds for the DSAs. In sharing some of the preliminary findings from other countries understudy, the speaker noted that that there were problems associated with the design and implementation of the debt sustainability analysis suggesting that neither of the two HIPC versions nor the MDRIs have succeeded in providing an adequate response to poor countries' debt overhang. He specifically gave a reflection on the lower revenue base on the countries understudy, the financing gap in Poverty Reduction Strategy papers (PRSPs) forcing countries to borrow more resources, adding more debt stock, bad terms of trade and lower economic growth rates. Other issues included the falling rate of Official Development Assistance (ODA), the failure in the formula to include domestic debt in its analysis and the weak correlation the analysis makes with poverty reduction.

Debt sustainability levels seemed to be working in the short term, but without addressing domestic debt and an equitable sustained economic growth and total debt cancellation, Africa will revert back to unsustainable debt levels.

Presentation of the Research Findings

Julius Kapwepwe - Researcher

Commenting on the debt levels of Uganda, the presenter noted that because Uganda had benefitted from the Multilateral Debt Relief Initiative, the country's debt had reached sustainable level. He however noted that the country's debt level had reached unsustainable levels before the MDRI initiative and that it was difficult to measure the efficacy of the current relief mechanisms. Creditors had already received sufficient rent from the loans they had given to Uganda through debt servicing. While Uganda had reached sustainable debt levels under the current framework, the recurrent structural problems remained within the economy that would force the country back to unsustainable debt levels. Turning to domestic debt, the presenter observed that the country had unsustainable domestic debt levels, the economic growth was below the projected rate during the application of the formula and corruption, coupled with wrong project design, still persisted in the management of public finance.

The speaker highlighted the internal structural and systemic problems that exist in the Uganda public finance management system as they relate to debt management. He noted that there was no debt management strategy to address comprehensively the total public debt. The current strategy mostly dealt with the external debt, leaving the government free to determine the amount of debt it could obtain from the public. Parliament did not participate in domestic borrowing but on external financing and had failed in its oversight role. Some loans were signed before Parliamentary approval, especially the ones that passed through the boards of the International Monetary Fund and the World Bank.

In presenting his recommendations, the speaker called for the establishment of a comprehensive debt strategy that included both domestic and external debts. He also called for compliance mechanisms that compelled the ministers and public officials to adhere to the legal frameworks as stipulated in the constitution. The speaker called on government to engage with other non-state actors in designing and implementing the debt sustainability strategy to broaden the democratic ownership of economic governance, especially with regard to debt management in the country.

In his concluding remarks, the speaker observed that the debt sustainability levels will not only depend on the cost of borrowing and the levels of economic growth, but also the levels of domestic debt, foreign reserves and the domestic revenue base. Government, therefore, should expand the formula for sustainable debt levels to provide the realistic levels of sustainability of Uganda's debts.

Discussant 1 – Francis Tumusiime, Senior Economist Ministry of Finance

The discussant noted that the papers were well researched and reflected the true scenario in Uganda, that there was a close correlation between the magnitude of a country's debt and its development, and that Uganda had had heavy debt burden before the debt relief under the HIPC frameworks and later MDRI.

Turning his attention to some of the issues raised in the study, the speaker explained that the government sought external support because the domestic revenue base was weak thereby fostering some element of aid dependency. The country had more development needs than it was able to generate from internal taxes. He also noted that there was a weak analysis of the need and the use for aid. Uganda still faced the challenge of utilizing the debt relief and the benefits of having sustainable debt levels. Turning to structural and systemic issues, the discussant noted that while there was a strategy for mobilization of external resources, officials in some cases failed to comply with some of the requirements and procedures when performing their duties. The government needed to develop a comprehensive external resource mobilization policy to assist in guiding the debt management strategy. Among the challenges Uganda faced in its quest for sustainable debt levels were the emerging lenders such as China, and the vertical funds. He noted that resources from these sources presented new challenges as they were not in the current aid effectiveness framework and the country's system was not ready for them.

He proposed that in order to sustain debt sustainability levels in Uganda, there was a need to increase policy dialogue between the government and its development partners from a position of partnership and borrower rather than from a position of donor recipient relationship. Current mechanisms for the debt sustainability framework were from a beggar-forgiver relationship which compromised the capacity of the government to demand what it needs for debt sustainability levels. He urged for improvement of the structures and institutions that dealt with debt management as well as designing and planning development projects financed by the loans. He called for the improvement of aid management departments, line ministries, and local authorities for purposes of decentralizing aid and debt management.

The speaker proposed the need for developing the domestic market of Uganda for purposes of limiting aid dependency. He also called for donor alignment and the integration of new lenders within a common framework for easy management. He challenged the participants to propose systems that could be used both for aid and debt management and emphasized the need for predictability of aid and partnership principles as one of the ways for addressing debt sustainability levels.

Discussant 2 – Hon. Henry Banyenzaki, from the Budget committee of Parliament

In contributing to the discussion, the speaker noted that Uganda's debt was unsustainable in the long run and that there was a need to review the formula for debt sustainability levels. He noted that factors that created the previous unsustainable debt levels still existed and they had not been dealt with. He cited corruption as one of the vices that contributed heavily to the unsustainable debt levels and the country had not made great strides in addressing the problem. The speaker observed that while the international community saw Uganda's debts as sustainable, many poor Ugandans died without their pension because the government was in arrears in servicing domestic debt. Important domestic investors were on the threshold of collapsing because the government had crowded them out due to high interest rates. The debt sustainability analysis had excluded domestic debts and this still remained a burden to the public coffers.

He challenged AFRODAD and UDN to take the research findings to the public for awareness purposes and keep the government in check. Other proposals suggested were for UDN and AFRODAD to plan a visit to the Ministry of Finance for purposes of sharing the research findings with senior government officials. He urged for responsible borrowing and for Parliament to get involved. He challenged the government to recalculate the debt sustainable levels in light of the oil discoveries.

From the ensuing debate the following formed action points and recommendations for the conveners

- The research studies should be presented to the relevant Members of Parliamentary Committees, including the Public Accounts Committee and the Local Government Committee
- UDN and AFRODAD to lobby the government to develop guidelines for the approval of loans in parliament – this should eventually be passed by an Act of Parliament
- The two organizations should support a Private Members' Bill to call for a comprehensive external and domestic resource mobilization policy
- UDN was invited, together with the participants, to participate in the new debt sustainability analysis for purposes of pushing for additional indicators and new thresholds for debt sustainability
- The two organizations were urged to convene a national public dialogue on debt sustainability trends on Uganda

Closure of the meeting

In her closing remarks the UDN executive director thanked the participants for their invaluable input into the studies and assured the meeting that what they had proposed as the way forward would form part of the action plan on their activities on debt sustainability and regulatory framework. AFRODAD's representative informed the meeting that the institution was keen to work closely with UDN to operationalise the plan.