

'Excessive domestic debt worsens high cost of living'

Public debt remains a matter of concern as there is no clear indication that government's appetite to borrow is waning. Although the government says there is no need for alarm, **Ms Peninnah Mbabazi**, a public debt analyst in an interview explains to *Prosper's Magazine's Ismail Musa Ladu* how the government is treading on slippery "debt" ground.

There are so many other important things to worry about at this particular time such as the high cost of living. Why should we worry about public debt transparency and accountability?

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 more than Shs5.5 trillion in Financial Year (FY) 2022/23, rising from Shs2.4 trillion in FY 2017/18. This

is coupled with external debt repayments that are projected at Shs2.4 trillion in FY2022/23 rising from Shs589 billion in FY 2017/18. This takes a first call on the revenue collection and as such, reduces funds available for service delivery. Uganda's tax to Gross Domestic Product ratio of 13 per cent and huge tax expenditures have resulted in foregone revenue of Shs5.1 trillion in only five years from FY 2016/17 – FY 2020/21.

Speaking of the rising cost of living, the heightened liquidity pressures being experienced in the country from external public debt are aggravated by heavier reliance on domestic debt more semi and non-concessional borrowing which has led to the heightened liquidity vulnerabilities the country is grappling with. This recklessness, especially the non-concessional type of borrowing, 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.

So, debt transparency is critical for providing accountability to the general public, enabling informed decisions by the government, as well as investors to understand borrowing trends.

Reports about performance/ outcomes of debt-funded projects



More scrutiny required. Parliament's oversight and scrutiny of the terms and conditions of the borrowing must be done thoroughly because that is where the devil is hidden. Reluctance in doing proper due diligence has caused approval of unfavourable borrowing conditions especially for Chinese loans.

seem to be under "lock and key." How do you intend to go about that to achieve your end game?

There is a need for the government to ensure investment in projects with high returns, especially publishing mid-term review reports of loans to avoid accumulation of non-performing loans. This is because there has been growing concern in lack of transparency in publicly guaranteed debt, debt arrears, contingent liabilities.

Collateralised public debt aggravates further such fiscal risks as it often remains hidden from the public and from parts of government due to widespread misreporting or limited disclosure due to vested interest capture.

The debt trap we are walking in is not just a failure of executive who generates them. Are there other institutions that shouldn't escape the blame?

There are some weak links in our debt acquisition and approval processes. So yes, there has been a weak appraisal and approval system of government and parliament in these matters, 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 scrutinising mechanisms are weak and damaging to the economy.

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Also, loans for ongoing projects seeking additional financing are approved without scrutinising their midterm or end of project evaluation reports – this is just unacceptable!

You seem to suggest that borrowing is not a problem. Is that what you mean?

Look, there is a difference between debt accumulation and utilisation. We are talking about responsible and transparent borrowing. There must be a return on investment on each borrowed coin – this is what we are talking about.

According to the Office of the Auditor General's report (2021), regarding the cash inflows and expenditures of externally funded projects revealed poor absorption and performance of the projects. Out of Shs9.5 trillion that was appropriated by Parliament, only Shs4.5 trillion (47 percent) was released.

Relatedly, absorption of externally funded projects further declined in the year under audit.

These are things that we are questioning and opposed to.

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

There is strategy in place to raise more revenue domestically. Isn't this a good move?

Although the government has developed a domestic revenue mobilisation 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.

Should financiers/lenders be held responsible for the government misuse of borrowed funds?

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.

In conclusion, what changes would you want to see?

We would want to see some enhanced transparency during loan acquisition. Accountability for the acquired loans is also critical.

Additionally, there is a 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.

Further, we would like to see minimised 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.

Additionally, the government should publish a section on collateralised debt in the annual debt reports. The reporting on collateralised loans would further benefit from including a section on collateralised debt, which would enable a better understanding of fiscal risks.

Ms Peninnah Mbabazi, a public debt analyst and advocate for responsible, transparent borrowing, at an interview on August 26. PHOTO/ ISMAIL MUSA LADU

