UGANDA’S RISING DEBT AND PUBLIC SERVICES

A Human Rights Impact Assessment

2022
This policy brief assesses Uganda’s debt and its impact on public services from a human rights perspective. This policy brief was written by Allana Kembabazi and Ausi Kibowa.

1. **BACKGROUND**

This year Uganda’s debt is projected to be 53% and will pass the 50% threshold set out in the Charter for Fiscal Responsibility and the convergence criteria under the East African Community Monetary Union Protocol, raising questions about its sustainability.

The country’s debt has steadily increased over the last five years particularly with Covid 19.¹

**Figure 1. Uganda’s Debt in USD Billion from FY2015/16 to December 2021**

Source: MOFPED, Medium term debt management strategy 2022/23 – 2025/26

In 2022/23, government now plans to borrow 55 billion per day to finance its budget.

While some of the debt has been on a concessional basis with lower interest rates and longer repayment periods, increasing the country is acquiring semi-concessional and other

non-concessional debt. Chinese loans are one such example. These now account for about 13 percent\(^2\) of our entire debt portfolio. Domestic debt, largely characterized as being expensive, has also risen exponentially over the years and now represents one third of our entire debt stock.

**Composition of Uganda’s External Debt Portfolio**

Bilateral creditor debts account for 27% of our external debt with the Paris Club holding 6.8% and non-Paris Club members holding 20.8% of the debt. Commercial banks at end of December 2021 held 11.2% of the debt, a significant increase of 7.58% in December 2020.\(^3\) 52% of the external debt is held by major multi-lateral creditors, and other multi-lateral creditors account for 9.2%.

**Figure 2. Uganda’s External Debt Portfolio in USD Billion**

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\(^3\) Medium Term Debt Management Strategy 2022/23-2025/26 at p.4.
Within its medium term debt strategy, Government plans to acquire Eurobonds of USD 1bn in FY 2022/23, USD 1bn in FY2024/25 and another USD 0.5bn in FY2025/6, together this would amount to 41.4% of external financing. It should be noted that Eurobonds present a higher cost of debt considering the interest charged.\footnote{Medium Term Debt Management Strategy 2022/23-2025/26} The government had prior resisted pressure to issue Eurobonds. Eurobonds can be tricky if mismanaged. Ghana, Kenya, Zambia issued Eurobonds to their detriment, requiring IMF financial restructuring package which came with austerity conditionalities.

**How long before our debt becomes due**

The majority of the debt has shorter repayment periods. The average time to maturity of the external debt was 11.4 years as of December 2021. Only 18.4% of the domestic debt has a 15-year maturity. 24.1% of the domestic debt matures in 2 years or less.

**Figure 3: Domestic Debt Composition by Maturity at end of December 2021**

\begin{itemize}
  \item 364 days 17.0%
  \item 91 days 0.4%
  \item 182 days 1.5%
  \item 20 years 7.0%
  \item 15 years 18.4%
  \item 10 years 25.9%
  \item 5 years 16.6%
  \item 3 years 7.9%
  \item 2 years 5.2%
\end{itemize}

Source: Medium Term Debt Management Strategy FY 2022-23
SUSTAINABILITY OF UGANDA’S DEBT

1. Limited assessment rubric

The government asserts that the debt is sustainable. Fitch Ratings, an international credit agency, assesses Uganda credit rating in 2022 as B+ with a stable outlook. However, the government’s and traditional rating agencies’ narrower definition of public debt only takes into account accrued loans while assessing debt sustainability. It does not take into account risks from contingent liabilities which now stand at UShs160 trillion. These can pose certain risks as we have seen with government issued promissory notes for Lubowa hospital public private partnership hospital. The Debt Sustainability Analysis does not take into account all the debt held by the Central Bank in the form of advances to government, for example the UShs 2.5 trillion that should be paid this year. A proper assessment of debt sustainability would take into account any financial liability that poses a risk to the country’s public finances. A promising step is the recent introduction of the statement of fiscal risks alongside the budget framework paper as mandated by the recently passed Charter on Fiscal Responsibility, that notes contingent liabilities, however, it does not set out the figures.

2. Precarious Economic Outlook

Even using the government’s rubric, the country’s economic outlook is precarious when you look at the traditional rubric which assesses ability to pay like export earnings.

<table>
<thead>
<tr>
<th>Years</th>
<th>19/20</th>
<th>20/21</th>
<th>21/22</th>
<th>22/23</th>
<th>23/24</th>
<th>24/25</th>
<th>25/26</th>
<th>26/27</th>
</tr>
</thead>
<tbody>
<tr>
<td>External debt service to Exports (%)</td>
<td>7.8</td>
<td>10.0</td>
<td>7.9</td>
<td>11.2</td>
<td>11.1</td>
<td>11.0</td>
<td>12.2</td>
<td>11.4</td>
</tr>
</tbody>
</table>


11% of this year’s projected export earnings will be used to pay debt. While this is below the 15% benchmark, triple shocks from Covid 19, the recent volatility in commodity and fuel prices...
triggered by Russia-Ukraine war, tightening global financial conditions and deteriorating terms of trade reveals how precarious the situation is. As net importers of fuel, food like wheat, we have to pay more for imports, draining fiscal resources. This coupled with high interest rates makes Uganda vulnerable especially since not all the country’s debt has fixed interest rates.

The country continues to acquire debt with floating interest rates. As at the moment, 21% of our external debt has variable interest rates exposing it to higher debt service costs given upward movements in the benchmark lending rates. Only 9.2% of the debt has no interest rate. Debt servicing will be therefore increasingly difficult.

**Figure 5: External Debt Stock by Interest Rate Type, end December 2021**

![Pie chart showing External Debt Stock by Interest Rate Type]

*Source: Quarterly Debt Statistical Bulletin and Public Debt Portfolio Analysis December 2021*

Uganda is one shock away from a debt crisis. Covid 19 reduced fiscal space, made debt servicing more difficult amidst rising needs and slowed economic growth. This coupled with increased vulnerability to natural disasters and climate change shocks that result in the need for emergency and unplanned funding has made the situation increasingly precarious.

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3. **Limited domestic revenue mobilization**

Our domestic revenue mobilization also remains low, below the East Africa macroeconomic convergence criterion. The percentage of revenue to GDP was 13.8% in FY 2021/22.\(^\text{10}\)

**Table 1: Tax to GDP ratio**

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>GDP at Current Prices (UGX) Billions</th>
<th>TAX collections (UGX) Billions</th>
<th>Tax/ GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020/21</td>
<td>147,962</td>
<td>18,594</td>
<td>13%</td>
</tr>
<tr>
<td>2019/20</td>
<td>139,689</td>
<td>16,042</td>
<td>11%</td>
</tr>
<tr>
<td>2018/19</td>
<td>132,090</td>
<td>16,146</td>
<td>12%</td>
</tr>
</tbody>
</table>

Despite expected oil revenue, this is yet to materialize and even then a significant amount will need to be reinvested. The growth rate in recurrent spending has not matched efficiency in revenue mobilization. This coupled with revenue losses from tax exemptions, corporate tax loopholes\(^\text{12}\) and illicit financial flows\(^\text{13}\) undermines efforts to mobilize revenue. It should be noted that the total revenue lost to tax exemptions stood at UShs 7.7 trillion in FY 2020/21.\(^\text{14}\)

Owing to low domestic revenue mobilization, Uganda is currently taking on more debt simply to pay its debt. For example the government will borrow 8 trillion from the domestic market to pay off earlier maturing debt.\(^\text{15}\)

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\(^\text{11}\) ISER calculations based off Ministry of Finance Approved Budget estimates.


4. Higher Debt Servicing Undermines Public Services and Human Rights

Debt sustainability merely considers the country’s ability to pay the debt without recognizing whether or not doing so will be detrimental to public services. It ignores the fact that at the back of these figures, there is a real human cost, people’s lives affected by failing to get public services like health, education.

Debt service is prioritized at the expense of basic human rights. Uganda will spend close to double its combined health, education, social protection budget on debt servicing despite Covid 19 revealing the dire need for public services. The disparity is starker if we exclude external sources of funding and focus on only government of Uganda expenditure on these sectors: debt servicing is two and a half times the combined budget of health, education, social protection, water and environment.

<table>
<thead>
<tr>
<th>Item</th>
<th>Expenditure FY 2022/23 Billion Shillings</th>
<th>As a percentage of the 2022/23 budget (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest payments</td>
<td>4,6919</td>
<td>9.7</td>
</tr>
<tr>
<td>Domestic debt refinancing</td>
<td>8,008.0</td>
<td>16.6</td>
</tr>
<tr>
<td>External Debt Repayments (Amortization)</td>
<td>2,412.2</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Total Debt Service Expenditure</strong></td>
<td><strong>15,112.1</strong></td>
<td><strong>31.1</strong></td>
</tr>
</tbody>
</table>

Source: Budget Speech 2022/23; 2022/23 ministerial policy statements

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Table 3: Cost of debt as at December 2021

<table>
<thead>
<tr>
<th>Risk Indicators</th>
<th>Dec-21</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>External Debt</td>
</tr>
<tr>
<td>Amount (in billions of UGX)</td>
<td>45,722.1</td>
</tr>
<tr>
<td>Amount (in billions of USD)</td>
<td>12.9</td>
</tr>
<tr>
<td>Nominal debt as percent of GDP</td>
<td>30.9</td>
</tr>
<tr>
<td>PV as percent of GDP1</td>
<td>21.8</td>
</tr>
<tr>
<td>Cost of debt</td>
<td></td>
</tr>
<tr>
<td>Interest payment as % of GDP</td>
<td>0.5</td>
</tr>
<tr>
<td>Weighted Average Interest Rate (Percent)</td>
<td>1.6</td>
</tr>
<tr>
<td>Refinancing risk</td>
<td></td>
</tr>
<tr>
<td>ATM (years)</td>
<td>11.4</td>
</tr>
<tr>
<td>Debt maturing in 1 year (% of total)</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Source: MOFPED, Medium term debt management strategy 2022/23 – 2025/26
While the IMF insisted on social spending floors as a condition for the last extended credit facility it provided to Uganda, it will be difficult to meet them while servicing its loan obligations should the debt continue to rise.

In the budget releases this year, in a bid to ensure fiscal consolidation, the amount released is less. The Minister of Finance recently admitted to Parliament that the government is short of funds to finance its key priorities in the first quarter of budget release. This cripples service delivery.

The diversion of resources from public services to debt repayment will result in the needs of the vulnerable not being taken into account. Vulnerable groups like women will be the most affected when there are cuts in public services i.e. health, education, water, social protection. Women bear the brunt of health costs when there are high out of pocket costs. Girls are often unable to attend school when fees are introduced or high. Women often fetch water and will have to move long distances to fetch water if there is no accessible affordable water.

From a rights-based perspective, in negotiating loans with financial institutions, States are obliged to take into account their obligations under the Covenant on Economic, Social and Cultural Rights to ensure that the debt obligation would not undermine economic, social and cultural rights of the most vulnerable. The Committee on Economic, Social and Cultural Rights has also called on international financial institutions, particularly the World Bank and IMF, to ensure their policies comply with member states obligations under the Covenant on Economic, Social and Cultural Rights, particularly with regard to international assistance and cooperation in articles 2 (1), 11, 15, 22 and 23.

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17 Hon. Matia Kasaijja addressing the Press, 11 August 2022
18 The concluding observations of the Committee on Belgium (E/C.12/1/Add.54), para. 31; Italy (E/C.12/1/Add.43), para. 20; Germany (E/C.12/1/Add.68), para. 31; Sweden (E/C.12/1/Add.70), para. 24; France (E/C.12/1/Add.72), para. 32; Ireland (E/C.12/1/Add.77), para. 37; and the United Kingdom (E/C.12/1/Add.79), para. 26. Maastricht Guidelines on Violations of Economic, Social and Cultural Rights (see E/C.12/2000/13) “[t]he failure of a State to take into account its international legal obligations in the field of economic, social and cultural rights when entering into bilateral or multilateral agreements with other States, international organizations or multinational corporations” is deemed a human rights violation. (para. 15)
Accordingly state's responsibility to realise human rights would take precedence over debt service obligations, particularly if the debt repayment would limit realizing rights like education, health. Debt repayments that infringe the right to health, education and other rights under the International Convenant on Economic, Social and Cultural rights would accordingly infringe human rights.19

5. Loan Conditionality Could Affect Public Services

Aside from sustainability, there are other reasons to be concerned about Uganda's rising debt. Harmful conditions linked to loans can undermine country's ownership and its realization of development strategies. Yet country ownership of development strategies is critical for two reasons.

From a rights-based perspective, for states to deliver on rights, they “have the primary responsibility for the creation of national and international conditions favourable to the realization of the right to development of peoples.”20 True country ownership of national development strategies can’t be achieved amidst aid dependence and high indebtedness since loan programs and the accompanying conditions will hugely shape the economic and social landscape.

Dependency on creditors will result in harmful economic policies at the expense of county's development strategies. Recently the state Minister of Finance appearing before Parliament's Committee noted it would be impossible to insist on local content for projects financed by loans, despite a requirement under the newly passed Local Content Act and the National Development Plan III to reserve a certain portion of jobs for Ugandans. Currently assessments of eligibility for new loans require conditionalities. For example, the IMF extended credit facility has conditions like a ceiling on fiscal deficits which means cuts in spending. There is also emphasis on regressive taxation like VAT, introduction of an excise duty on airtime, and internet data, increments in the excise duty on petrol and diesel which disproportionately impacts the poor.21

As we saw in the 1990’s, loan conditionalities like structural adjustment programs including privatization can result in austerity, for example reduction in government workers or salaries, limit financial and human resource and accordingly divert the country from its development trajectory and undermine public services. These programs were sold as non-negotiable and

20 Article 3(1) of Declaration on the Right to Development
21 IMF Extended Credit Facility (2021), Request For A Three-Year Arrangement Under The Extended Credit Facility–Press Release; Staff Report; And Statement By The Executive Director For Uganda IMF Country Report No. 21/141
inevitable by country’s creditors like IMF and World Bank. When conditionalities decrease livelihoods and increase poverty, vulnerable groups are affected.

Case study of Zambia
Zambia’s foreign debt crisis has resulted in foreign creditors dictating the terms of its economic recovery. Zambia has had to cancel $2 billion worth of projects financed by commercial loans. As a result of its debt, it had to reduce its spending for health and education by 21% between 2019-2021. From 2011, Zambia had borrowed exponentially to fund roads, railway, energy, telecoms. With Covid 19, the situation worsened and in 2020 it defaulted on a repayment. Its repayments are greater than it spends on health, education, water, sanitation and social protection combined.

Fiscal consolidation programs that result in the de-investment in public social sector in favor of debt servicing arrangements and the tightening of fiscal policy and expansion of regressive tax policies so as the leverage more public debt deepen inequality

6. Limited Access to information and Transparency
From a rights based perspective, access to information to enable meaningful participation is key. However, besides contracts from international Financial Institutions like the IMF, World Bank which are mandated to be public, loan agreements are not publicly available for scrutiny. They are not even placed on government websites even after approval. Methods for assessing debt sustainability are not made public. The IMF for example despite releasing a 135-page document on how to assess debt sustainability notes, “Since the methodology by which the Fund makes it sustainability (and thus lending) decisions is potentially market sensitive, the precise aggregation method and the index cut offs determining the three signals are strictly confidential and must remain internal to the Fund.” This not only undermines access to information and participation but also makes it hard for public to hold policy makers accountable.

7. Limited Participation
Although the right to participation is enshrined in Uganda’s constitution, there is minimal participation. Participation in issues pertaining to the country’s debt is often limited to Ministry of Finance, Bank of Uganda and Parliament who through Article 38 represent the people. Parliament has come under scrutiny on whether it has sufficient information to approve the loans. We have also noted loans that come to Parliament after commitments have been made, as was the case with the Lubowa PPP. An approval of the IMF extended credit facility to Uganda, for example faced public outcry with many questioning whether the initial Rapid credit facility at the onset of Covid 19 was properly used and demanding to be consulted.

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22 ISER (2019) Achieving Equity in Health: Are Public Private Partnerships in Health the Solution?
A rights-based approach requires development to be a participatory process where a person “is the central subject of development and should be the active participant and beneficiary of the right to development.” Debt given that it primarily serves the interests of the creditors can disenfranchise the people, making them unable to truly participate and benefit in development and yet they ultimately have to pay it back. For public services to be participatory, their realization can’t be hinged on debt as is likely to be the case. When economic policy decisions are based on the whims of international financial institutions, they can be removed from the peoples needs.

8. Debt that does not deliver

At a public convening organized by Initiative for Social and Economic Rights, Makerere University, Federation of Women Lawyers, Uganda Consortium on Corporate Accountability, people repeatedly asked why government continued to borrow while their debt did nothing for them. While some public services have had projects financed by debt like the Mulago Women’s Hospital constructed with a loan from the Islamic Development Bank is still inaccessible to the poor given the high out of pocket costs, raising questions about who this money truly benefits. If the loans used public works, they could also increase employment but that is not the case. Despite World Bank providing money to use public works to create employment during Covid 19, this has not happened. A report published by the Auditor General on the use of COVID – 19 loan funds highlighted several irregularities in the way that these funds were spent. UShs 10 billion of the funds were diverted and spent on other items than those for which the funds were disbursed.

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23 Right to development, arts. 1 (1), 2 (1) and (3), and 8 (2)).
24 ISER (2018) Why Mulago Women’s Hospital Will Do Very Little to Address Maternal and Child Mortality in Uganda,
26 https://www.oag.go.ug/viewmegareport/9
Furthermore, Government uses non-concessional loans for on lending which have higher interest rates and shorter repayment periods yet MDAs have struggled to absorb the loans and repayment.\textsuperscript{27} The Office of the Auditor General has cautioned that this could heighten the country’s debt vulnerability.

Willful unplanned spending worsens the situation. Supplementary budgets without clear sources of funding impact on country’s debt burden. Questions have been received about whether government is tightening its belt. For example it will spend 2.6 trillion in classified expenditure.\textsuperscript{28}

**LOOKING FORWARD: CONCLUSION AND RECOMMENDATIONS**

1. **Reforming the international financial architecture**

   **Debt Cancellation**

   While government officials have been castigated about how the money is used and it has been framed as an issue of poor debt management, this ignores the role of creditors in the development of the budding crisis. Profligate lending without paying attention to true ability to repay leads to crisis and violates human rights. Under the states’ legal duty to engage in “international cooperation and assistance” per articles 55 and 56 of the UN Charter,\textsuperscript{29} creditor countries have extraterritorial human rights obligations to the people of debtor countries. As noted in the Monterrey Consensus of the International Conference on Financing for Development “[d]ebtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations.”\textsuperscript{30} Thus they must make sure it does not lead to unsustainable debt, must exercise due diligence and not lend to projects that have no developmental benefit. The State must also avoid loan agreements in circumvention of the applicable national legal and institutional frameworks.

   Debt cancellation could be a powerful remedy. The debt cancellation waves of the 90’s in Uganda resulted in funds saved from debt repayment that was used to finance UPE. It resulted in increased investment in health and the abolishment of user fees in the 90’s.

   However, doing so must ensure the net fiscal gain from debt relief will be marginal given external policy conditionalities associated with the debt relief. The Heavily Indebted Poor Countries (HIPC) Initiative linked debt relief to poverty reduction and macroeconomic stability. It has often come with onerous conditions like the privatization of state enterprises, wage ceilings, public service redundancies. For example, in Tanzania, debt cancellation came with the

\textsuperscript{27} Office of the Auditor General (2021)
\textsuperscript{28} Ministry of Finance (2022) Approved Estimates
\textsuperscript{29} U.N. Charter arts. 55, 56.
\textsuperscript{30} Para 47
requirement to privatize water utilities in Dare salaam, which resulted in reduced access to water for the vulnerable due to the high fees. In Zambia, earlier debt cancellation resulted in a freeze in public sector wages.

Despite calls by civil society to the World Bank and IMF at the onset of the Covid 19 crisis to cancel the debt, all that was offered was debt suspension which only postponed payment but did not address the debt problem. Now that G20 Common Framework for Debt Treatment Debt Suspension Service Initiative is expiring, countries face higher interest rates, underscoring the need for a new debt sustainability Framework. African Ministers of Finance called for rethinking the international financial architecture.

A Fairer Allocation of Special Drawing Rights

Special Drawing Rights (SDRs) received without conditions can ameliorate the debt burden and provide stimulus in a fiscally constrained economy like Uganda’s. Following the IMF’s issuance of SDRs to Uganda and following civil society calls to government to use them for public services, they were used to fund health, education, water enabling the country to make progress on the social spending floors. However, in context these SDRs are paltry because of rules governing their distribution. In August last year, the IMF allocated $650 billion despite civil society calling for an allocation of $3 trillion. Of that amount, 400 billion in SDRs has gone to advanced economies that do not them as much as lower income countries like Uganda. A new allocation of SDRs to cushion against the global shocks is needed with a fairer allocation mechanism. This is critical given that the triple shock of rising commodity prices, Covid 19 and rising interest rates have resulted in a liquidity crisis so countries have to make unconscionable choices: to either cushion their populations or use the SDRs to bolster reserves.

2. Towards a Human Rights Impact Assessment on Debt

Assessing debt has been purely looked at in economic terms such as debt to export or debt to revenue ratios. A human rights impact assessment of debt should also be one of the lenses through which Parliament and Ministry of Finance assess debt. This would not only entail assessing whether process of acquiring debt has allowed participation and access to information but would also assess the debt burden in light of human rights. For example the Committee on the Rights of the Child has recommended that the World Bank Group, the International Monetary Fund and the World Trade Organization should ensure that their activities related to international cooperation and economic development promote the full implementation of the Convention on the Rights of the Child. Accordingly loans would be holistically assessed from

31 ISER (2021) Funding Public Services Remains the Best Use of Uganda’s New Special Drawing Rights Allocation,
32 IMF
34 General comment No. 5 (2003) on general measures of implementation of the Convention on the Rights of the Child, para. 64.
whether they aid the implementation of the rights of the Child and the threat the country’s loan burden could pose to the rights of the child or right to health etc. In the past, UNDP proposed a broader concept of debt sustainability that linked it to the then Millennium Development Goals arguing sustainability should consider whether there are satisfactory financial requirements to achieve the sustainable growth path necessary to achieve the goals. Similarly, a human rights impact framework would equate the sustainability of external debts with Uganda’s ability to meet economic social rights expenditures like on health, education and the SDGs while continually being able to repay the debt stock.

The Uganda Human Rights Commission, the constitutionally mandated body on human rights would accordingly also have to weigh in on discussions around debt before Parliament. Similarly, the Equal Opportunities Commission statutorily charged with addressing historical imbalances and promoting equity would also be mandated to weigh in.
**RECOMMENDATIONS**

**Government**
1. Avoid loan agreements in circumvention of the applicable national legal and institutional frameworks.
2. Establish a transparent and accountable system for loan management.
3. Use Special Drawing Rights to finance public services in the budget once reserves are stable.
4. Enhance domestic revenue mobilization through
   - Progressive taxation
   - Closing Corporate tax loopholes
   - Curbing illicit financial flows.
   - Curb tax exemptions
5. Ensure participation of key stakeholders including civil society, the Uganda Human Rights Commission, Equal Opportunities Commission.
6. Desist from taking non concessional debt.

**International Financial Institutions**
1. Consult civil society and populace as part of monitoring visits.
2. Exercise due diligence.
3. Refrain from promoting fiscal consolidation driven austerity measures.
4. Provide access to information.
5. Debt cancellation.
6. Provide more Special Drawing Rights

**Civil Society and citizens**
1. Demand access to information on loans and debt burden including using formal access to information requests under the Access to Information Act.
2. Demand accountability for funds used.
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