Africa’s rising debt

Session 3. Challenges and reforms at the country level

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Structure of the Presentation

1. Background
2. Evolution of Uganda’s Debt
3. Debt Relief Initiatives
5. Uganda’s Sustainable Debt Strategy
6. Challenges
7. Way Forward
8. Conclusion
1. Uganda’s Economy

1.1 Currently USD 26.5bn
1.2 GDP growth for FY 2017/18 at 5.8% cf FY 2016/17 growth rate of 4%
1.3 Headline Inflation rate 3.1% (July 2018)
1.4 Monetary policy rate 9% (June 18)
1.5 Commercial banks lending rates 17.7% (June’ 18)
1.6 Treasury bills - average weighted yields to maturity (July’ 18): 10.5%, 12.0% and 14.5% for the 91, 182, and 364 day tenor respectively
2. Evolution of Uganda’s Debt

2.1 Country started borrowing in the early 1980s
2.2 Late 1980s debt crisis peaking in 1990
2.3 By 1991 the stock of debt US$ 2.6bn (83% of GDP), o/w 63% from the multilaterals
2.4 First debt strategy formulated in 1991 to address the crisis
2.5 The debt still remained unsustainable as the country required financing beyond grants to for economic reforms
2.7 The 1995 Enhanced Debt Strategy to address the shortcomings of the 1991 strategy
3. Debt Relief Initiatives

3.1 Highly Indebted Poor Countries (HIPC) Debt Relief Initiative
i. A global undertaking launched in 1996 to ensure poor countries reduce their debt to sustainable levels
ii. Uganda was first country (in April 1998) to benefit from the initiative
iii. The debt relief savings were channeled to the poverty reduction sectors such as education, and health

3.2 Multilateral Debt Relief Initiative (MDRI)
i. Launched by the G8 in 2005, the multilaterals were required to cancel 100% their debt for eligible countries
   Eligible countries included those that had reached completion point under HIPC II and those with per capita income below US$ 380 and outstanding debt to the Fund at end 2004
ii. For Uganda, the savings were utilized through the Poverty Action Fund (PAF) for social services

3.3 Achievements of the Debt Relief Initiatives
i. The national budget eased of pressure
ii. Savings channeled to the social services sector and other key economic sectors such as agriculture
iii. Acted as stimulus for overall economic growth and development

3.4 Challenges of the Debt Relief Initiatives
i. The resultant social and economic development could not be sustained on the national budget not even with the concessional external support only;
ii. The sectors which received relief funds called for reforms, e.g. UPE, USE etc
iii. Borrowing through concessional, less concessional, non-concessional, commercial external and domestic
4. Current Debt and Its Management

4.1 The Current Debt
i. Total debt US$ 10.65bn (end FY 17/18) cf US$ 9.4bn (end FY 16/17)
ii. o/w external debt US$ 7.2bn, while domestic debt US$ 3.45bn
iii. Ratio to GDP (nominal) 40.6% (end FY 17/18) cf 37% (end FY 16/17)

4.2 Debt Composition (end of FY 17/18)
i. External Debt
   a) Total public debt stock 67.6% external debt
   b) Multilateral 68%
   c) Bilateral 31%
   d) Commercial banks 1%
ii. Domestic Debt
   a) Domestic debt 32.4%,
   b) Treasury bills 28.5%
   c) Treasury bonds 71.5%

4.3 Public Debt Management
i) Legal and Policy/Operational Frameworks
   a) Public Finance and Management Act (PFMA) 2015
   b) Public Debt Management Framework (PDMF) 201,
   c) Debt Sustainability Analysis (DSA) 2017
   d) Medium Term Debt Strategy (MTDS) 2017
### 4.5 Table: Annual Public Debt Cost and Risk Indicators, 2013 - 2018

<table>
<thead>
<tr>
<th>Risk Indicators</th>
<th>Jun-16</th>
<th></th>
<th>Jun-17</th>
<th></th>
<th>Jun-18</th>
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<tr>
<td></td>
<td>External</td>
<td>Domestic</td>
<td>Total</td>
<td>External</td>
<td>Domestic</td>
<td>Total</td>
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<td>Nominal debt as % of GDP</td>
<td>21.0</td>
<td>12.6</td>
<td>33.6</td>
<td>24.7</td>
<td>12.6</td>
<td>37.3</td>
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<tr>
<td>PV as % of GDP</td>
<td>11.7</td>
<td>12.8</td>
<td>24.6</td>
<td>14.8</td>
<td>12.6</td>
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<td>Cost of debt</td>
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<tr>
<td>Interest payments as % of GDP</td>
<td>0.25</td>
<td>1.98</td>
<td>2.23</td>
<td>0.35</td>
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<td>2.32</td>
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<td>Weighted ZAR 1R (%)</td>
<td>1.2</td>
<td>15.3</td>
<td>0.65</td>
<td>1.4</td>
<td>15.6</td>
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<td>Refinancing risk</td>
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<tr>
<td>ATM (years)</td>
<td>17.4</td>
<td>14.4</td>
<td>31.8</td>
<td>16.8</td>
<td>3.7</td>
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<td>Debt maturing in 1yr (% of total)</td>
<td>4.4</td>
<td>17.4</td>
<td>21.8</td>
<td>2.7</td>
<td>13.4</td>
<td>16.1</td>
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<td>Debt maturing in 1yr (% of GDP)</td>
<td>0.2</td>
<td>5.7</td>
<td>5.9</td>
<td>0.2</td>
<td>4.8</td>
<td>5.0</td>
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<tr>
<td>Interest rate risk</td>
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<td>3.7</td>
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<td>Debt refinancing in 1yr (% of total)</td>
<td>4.4</td>
<td>17.4</td>
<td>21.8</td>
<td>2.7</td>
<td>13.4</td>
<td>16.1</td>
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<tr>
<td>Fixed rate debt (% of total)</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>96.7</td>
<td>100.0</td>
<td>97.8</td>
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<td>FX risk</td>
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<tr>
<td>FX debt (% of total debt)</td>
<td>0.5</td>
<td>6.2</td>
<td>6.7</td>
<td>1.7</td>
<td>6.2</td>
<td>7.9</td>
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<tr>
<td>ST FX debt (% of reserves)</td>
<td>2.0</td>
<td>5.2</td>
<td>7.2</td>
<td>2.0</td>
<td>5.2</td>
<td>7.2</td>
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</table>

Source: Public Debt Management Framework (PDMF) 2013
5. How has Uganda Maintained a Sustainable Debt Strategy

5.1 Refinancing Risk

i. ATM (yrs) – Domestic debt is on a positive increasing trend above the threshold of 3 yrs, External on gentle decline due to recent commercial loans

ii. Debt Maturing in one Year (% of total) – Domestic debt is on a decline while external is on increase

iii. Measure taken: issuing T-bonds with higher maturity (tb:TB 30:70) as we reform (single price auction, PD, Mobile money) the domestic security market to control interest rates; and contracting long term external debt
5.2 Interest Rate Risk (ATR,

i. ATR (yrs): takes more or less the same trend as ATM for both domestic and external debt

ii. Debt Re-fixing in 1 yr (% total): domestic debt is falling while external is rising

iii. Fixed Rate Debt (% total): Domestic debt remains at fixed rate all through, while external has some variable loans in the last two years mainly from China

iv) Measures: the low interest rate risk exposure is due to the large share of concessional loans in the external debt portfolio. However 36.2% of domestic debt is due in one year exposing the debt portfolio to significant interest rate risk. Further issuance of long term domestic debt to be promoted.
How has Uganda Maintained a Sustainable Debt Strategy (Cont’d)

5.3 Exchange Rate Risk

i. By end of Dec. 2017, FX denominated debt increased to 67.6% compared to 66.2% in Dec. 2016 indicating a high share of external debt in the debt portfolio. This increase is mainly attributed to external borrowing to finance government’s large infrastructure need in energy, transport and oil and gas.

ii. Measure: The foreign exchange reserve is at 5.3 months of imports which is a large FX buffer providing assurances that FX is available for servicing foreign debt. Also, the exchange rate of the shilling has remained stable depreciating at 1.5% in nominal terms for the year ending Dec 2017.
6. **Emerging Challenges (with relief, debt strategies and a framework)**

i. Growing fiscal deficit due to slow growth in revenue to GDP (16% cf SSA 22.4%)

ii. Debt is less concessional than before as we move towards the middle income status (though significantly high 68%)

iii. Poor export performance hinders external debt service raising FX risks

iv. Low absorption capacity leading to cost affecting ability to repay

v. Increased development targets (fiscal appetite) towards middle income status (2020;)

vi. Supplementary budgets increases net domestic financing

vii. Skills capacity gaps: in debt management across departments/agencies

viii. Undeveloped domestic primary market and unattractive secondary market

ix. Slow external debt disbursements especially from concessional sources with many conditionalities.
7. **Way Forward**

i. **Growing Fiscal Deficit: Domestic Revenue Mobilisation Strategy** to increase the tax base and efficiency in tax administration (target is increase of 0.5% tax to GDP p.a.)

ii. **Less concessional debt than before:** though the share of concessional loans is reducing, it remains significant at 68% with commercial loans standing at only 1% (Eurobond is still avoided)

iii. **Poor export performance:** Diversify exports and leverage the expected output from the heavy investment in hydro power energy

iv. **Low absorption capacity:** address matters of compensation (a bill in Parliament), provide counterpart funding as part of the project appraisal, and enhance M&E

v. **Increased development targets (fiscal appetite):** proper sequencing of related projected, while cautiously taking on new projects mindful of undisbursed debt

vi. **Supplementary budget for domestic debt:** the issuance calendar with the NDF to be observed as approved by Parliament

vii. **Skills capacity gaps:** capacity building and retooling

viii. **Undeveloped domestic primary markets:**
    a) Investor base to be expanded as the pension law is under review, and
    b) Retailer investors being promoted through mobile money platform
8. Conclusion

i. Uganda’s debt remains sustainable but close to the threshold

ii. There is need to closely implement the PDMF and the MTDS

iii. We need to pick lessons from the relief initiatives we have had to focus on productive debt

iv. Heavy recourse to domestic debt may compromise private sector credit growth (low level in primary security market development) which may affect investment and hence GDP growth

v. Weaknesses in debt management as part of the challenges need to be addressed through benchmarking, skills building and TA

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Borrowing for productive public investments

Challenges and reforms at the country level

Shakira Mustapha

Research Fellow
Public Finance and Institutions
Infrastructure gap: SSA lagging their regional peers

Source: Barhoumi et al., 2018
Golden rule of borrowing: Borrow to invest
Managing public investments is challenging

Source: CoST (2011)
Investing in investing: The rise of diagnostic frameworks

Planning
1. Fiscal rules
2. National and sectoral plans
3. Central-local coordination
4. Management of PPPs
5. Regulation of infrastructure corporations

Implementing
11. Protection of investment
12. Availability of funding
13. Transparency of execution
14. Project management
15. Monitoring of assets

Allocating
6. Multiyear budgeting
7. Budget comprehensiveness
8. Budget unity
9. Project appraisal
10. Project selection
Challenges of moving from diagnostics to reform

Moving from diagnostics to designing a reform plan requires caution:

1. Take into account the politics of borrowing and investment decisions
2. Focus of how systems function and not just how they look
3. Not just about budgetary institutions
Thank you!

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Africa’s Rising Debt:
Session 3 – Challenges and Reforms at the Country Level

Carolina Renteria
IMF – Fiscal Affairs Department

London
November, 2018
Innovation in analytical tools and capacity development activities beyond debt analysis

IMF FAD’s recent work focus on understanding and mitigating potential risk to the fiscal position and debt dynamics by expanding coverage and analyzing stocks and flows.

<table>
<thead>
<tr>
<th>Recent FAD Analytical Tools and Capacity Development activities</th>
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<tbody>
<tr>
<td><strong>Fiscal Transparency Code (2014):</strong> Promotes greater disclosure of information about public finances</td>
</tr>
<tr>
<td><strong>IMF Fiscal Risk Framework (2016):</strong> Provides good practices for identifying, analyzing, quantifying, mitigating, and disclosing fiscal risks and contingent liabilities; improving fiscal reporting and SOE oversight</td>
</tr>
<tr>
<td><strong>IMF/WB PPP-Fiscal Risk Assessment Model (PFRA) (2016):</strong> Assesses fiscal costs and risks from of PPP project(s) and provides a reporting framework in line with international standards.</td>
</tr>
<tr>
<td><strong>Fiscal Risk Stress Test Tool (2016):</strong> Provides a more comprehensive and integrated assessment of potential shocks to government finances, and their implications for government solvency, liquidity, and financing needs</td>
</tr>
<tr>
<td><strong>Public Sector Balance Sheet Approach (2018):</strong> Brings together all accumulated assets and liabilities, offering a broader picture beyond debt and deficits of central and general government, including public corporations and intertemporal dimension analysis (future revenues and expenditures).</td>
</tr>
</tbody>
</table>
28 Fiscal Transparency Evaluations uncover weaknesses in the three pillars of the FT Code

Fiscal Transparency Code Pillars:
I. Fiscal Reporting, II. Fiscal forecasting and budgeting, III. Fiscal Risk Analysis and Management

Kenya (2013): Kenya's public sector liabilities were estimated at 93% of GDP - more than double the reported level of public debt; more than 75% of contingent liabilities are unreported.


Uganda (2016): Fiscal reports exclude full revenues and expenditures of 63 extra-budgetary units and 32 Public Corporations, public investments exclude multiannual commitments; need for comprehensive fiscal risk analysis.

* Sub-Saharan Africa countries include: Mozambique, Tanzania, Kenya, Senegal, and Uganda
Developed a framework for countries to manage fiscal risks

**Identify & Quantify Risks**
- Identify sources of risk
- Calculate fiscal exposure
- Estimate likelihood of realization

**Decide Whether to Accommodate Residual Risks**
- Take into account in setting debt objectives

**Decide Whether to Mitigate Risks**
- Direct controls and limits on exposures
- Regulation, incentives, and other indirect measures
- Transfer and risk sharing mechanisms

**Decide Whether to Provision for Risks**
- Expense fiscal costs in the budget
- Budget contingencies
- Set aside financial assets in buffer funds
With a growing focus on managing fiscal costs & risks of PPPs

IMF FAD has conducted over 40 CD activities dedicated to Fiscal Risks Management, of which 22 have addressed managing fiscal risks from PPPs.

Public officials from 4 African countries (Cote d’Ivoire, Niger, Burkina Faso, Namibia) were trained in the use of the PFRAM tool and 4 regional workshops have taken place (OLF, Francophone Africa, Nigeria, Ghana).
Strengthening infrastructure governance to mitigate risks of debt finance
Expanding the scope of Fiscal Policy: Public Sector Balance Sheet Approach

Complements existing debt approach, considers entire public sector, takes into account assets, liabilities, net financial worth and intertemporal analysis, strengthens statistics and accounting systems; doable even in data constrained countries.

Individual country PSBS for 31 countries – percent of GDP

Source: IMF Fiscal Monitor, October 2018
It’s not only what you owe, but what you own: Valuation and management of assets

Aggregate PSBS

South Africa

Tanzania

Kenya

Uganda

The Gambia

Source: IMF Fiscal Monitor, October 2018
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