# Analysis of the Acquisition and Utilization of Loans: A Civil Society perspective.

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# Introduction

- Uganda is a highly indebted Poor Country (HIPC)
- In 2000 first country to receive 100% debt cancellation under the HIPC initiative
- Reduced debt burden from US$ 4.1 billion (2000) to US$ 1 billion (by 2003/4)
- However since then the debt burden risen to current US$ 3.1 billion (US$ 4.7 in 2011)
- 90% of the external debt is owed to multilateral creditors (The World Bank alone accounts for 60%). 10% is owed to bilaterals and private international banks).
- Uganda's debt sustainability strategy – high concessional loans-low interest rates, long repayment period 10 – 50 yrsand a grace period –p 10 yrs)

# Why Borrow?

- Budget financing/compliment revenue short falls
- Contribute to economic development and poverty reduction
- Funding for priority areas (health, water, education, roads etc.)
- Funding for productive areas (agriculture, industry, human resoerce development)
- Source of funding for projects (investments that require large amounts of money – dams, roads).
- Multilateral credit is borrowed on highly concessional interest rates of (0.75% - 2% p.a) with a repayment period of 10 – 50 years. Some have a commitment charge of 0.50 – 075%. Others have management charge 0.10% - 1% (not both)

# External Debt Burden as at 31 March 2012

| Period | 31 March 2012 | % |
|---|---|---|
| External Debt | USD 3.107,679.193 | |
| Uganda 's Creditors | | |
| International Development Association (IDA/THE World Bak) | 1,877,363,463 | 60% |
| African n development Fund (NDF) | 573,164.565 | 19% |
| Nordic Development Fund (NDF) | 70,455,020 | 2% |
| International Fund for Agricultural Develoment (IFAD) | 157,760,126 | 5% |
| China | 149,380,198 | 5% |
| Others | 852,147,221 | 9% |

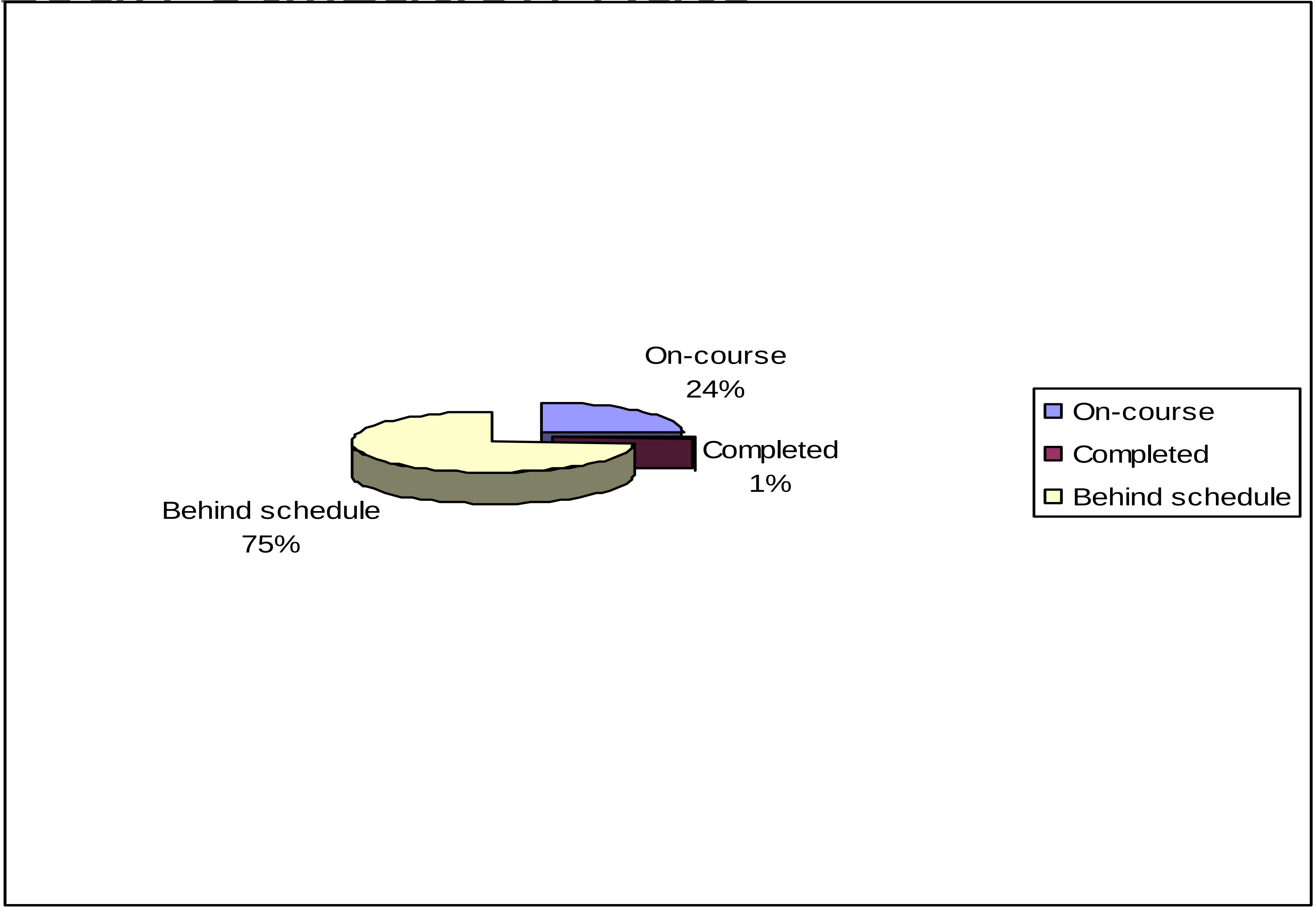
# 10 selected World Bank Loans 1995 - 2013 (www.worldbank.org )

| Project name | Amount (USD) | Approved date | (active/closed) |
|---|---|---|---|
| Agricultural sector management project | 17.9 | 16/6/1996 | Closed |
| Lake Victoria Env. Project | 22.1 | 30/7/1996 | Closed |
| Nutritional Child Dev. Project | 34.0 | 24 /3/1998 | Closed |
| NAADS | 45 | 15/2/2001 | c;losed |
| Protected Areas Management and Sustainable Project | 35.0 | 30/7/2002 | Closed |
| NUSAF 1 | 100.0 | 23/7/2002 | Closed |
| Millennium Science Project | 30.0 | 25.5/2006 | active |
| NYSAF 2 | 100.0 | 28/5/2009 | Active |
| Uganda Health Systems Strengthening project | 130.0 | 25/5/2010 | Active |

# Loan Utilization

| Status of Projects | Total | Percentate |
|---|---|---|
| Total projects | 90 | 100% |
| Completed Projects | 1 | 2% |
| Projects on Course | 22 | 24 |
| Projects behind schedule | 67 | 74.4% |

# Loan Utilization Rate



# Reasons for incomplete/delayed Projects

| Reason | Requency | Percent (n-90) |
|---|---|---|
| Procurement constraints lengthy processes, delayed commencement) | 20 | 22.2% |
| Delays in meeting loan conditions | 12 | 13.3% |
| Delayed approval by government | 6 | 6.7% |
| Delayed implementation by MDAs | 6 | 6.7 |
| Design Issues (poor, change in design) | 4 | 4.4% |
| Complaints on inadequate and delayed payments or remittance of funds to implementers (districts) | 4 | 4.4% |
| Creation of additional districts | 3 | 3.3% |
| Delay in submission of performance report | 3 | 3.3% |
| Limited capacity of contractors | 3 | 3.3% |
| **Source: Report on Loans, Grants, and Guarantees for FY 2011/12 by MFPED** | | |

# Economic Costs of Borrowing

- Negative implications for budgeting (dependency on loans)
- Government expenditure on external debt (principle and interest). 13% of the budget is for debt servicing CF health at 9%
- Huge debt servicing diverts funds from priority areas
- Exchange rate depreciation worsens the debt burden
- Long period of loan repayment means country is indebted forever (per capital debt burden = USD 91)
- Increased borrowing leads to high costs of macro-economic management leading to a balance of payment deficit/crisis

# Cost of borrowing … co.t'd

- Negative Impact on macro-economic stability, economic growth and poverty would ignite crisis – social and political (Cf Uganda in the 1980s).
- Rise in the interest rates for domestic markets increases inflation and affects macro-economic stability (e.g 2011/12). BOU forces to sell government securities to stem inflation.
- Damages to export-led growth due to appreciation of exchange rate -raises the cost of doing business
- Raise in Government domestic debt stock

# The Role of Parliament

- Article 159 of the Constitution to Parliament to approve government borrowing (external and domestic) through a resolution of Parliament or through an Act of Parliament.
- Article 164 of the Constitution provides that , Parliament shall monitor all  expenditure of public funds.
- However, Parliament has been passive in this role.
- There is need for a participatory loan application appraisal procedure to enable beneficiaries.(constituents) participate in the decision making.
- The constituents are responsible for paying back the borrowed money.

# Role of Civil Society

- Parliament needs to establish a participatory loan monitoring process and follow up procedures rather than wait for a report from the Executive.
- Most times the beneficiaries do not have information about the money borrowed on their behalf
- There is need for a joint Parliament – Civil Society Forum to review the modalities for loan acquisition and utilization.

- Thank you