

Loan acquisition and Utilisation in Uganda - the role of Cabinet and Parliament

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Presentation at the Seminar of the 9th Parliament on Public
Finance Management in Uganda

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Friday, June 7, 2013

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Background

ODA continues to constitute an important share of the Government's overall resource envelope, with budget and project support loans and grants,

FY 2010/11 total ODA accounts for 24% of overall budget resource envelope.

FY 2011/12 constitutes about 20% (*incl. both Project and Budget Support*)

FY 2012/13 constitutes about 19%

Channels of assistance

Major

- Budget support (General Budget Support and Sector Budget support)
- Project Support (includes Technical Assistance)
- Vertical Funds- Global Funds

Others

- Commodity aid,
- Humanitarian Aid
- Off-budget support

Off-budget support refers to support channeled through outside government systems eg through NGOs

External Resource Strategy and Policy

- EXTERNAL RESOURCES MOBILISATION
 - Guided by the principles set out in the National Development Plan and,
 - Uganda Debt Strategy 2007 revised 2013- *Sets out governments overall policy on debt management, Preferred terms, type and conditions of new financing*

Priority:

Grants and concessional loans where grants fall short.

Loans are secured to finance critical sectors that have direct bearing on increasing productivity, output, and competitiveness such as energy, infrastructure, rural income enhancement, and employment creation.

GOU Objective;

Ensure value for money from external assistance, debt sustainability and eventually reduce dependency on development aid over the medium term.

GOU Strategies for Development

Assistance Mobilisation and Utilisation

- NDP- Government needs a lot of investment to meet development objectives. Domestic resources are not sufficient hence Foreign resources. Although Uganda has not reached the Internationally agreed threshold of Aid/GDP of 25%, it remains heavily dependent on aid
- Government is aware that it needs to ultimately reduce its aid dependence in the long run by improving on domestic resource mobilisation

Strategies Cont...

- Having benefited from HIPC and MDRI debt relief initiatives, Government is concerned that any increase in debt burden must be sustainable - Government preference for grants and concessional loans with a grant element of above 35%
- Government case for scaling up aid is dependant ability to manage current volumes of assistance effectively
- Improve attractiveness of Uganda as an aid recipient – Improve PFM systems, procurement laws
- Strengthen policy dialogue with Development partners₇

LEGAL FRAMEWORK

- ✓ **The Constitution (1995) Article 159 provides for the Power of the Government to Borrow or Lend**
- ✗ Loan approval powers – Parliament

- ✓ **The PFAA- Public Finance and Accountability Act (2003)**
 - ⌘ Vest authority to raise money loan in the Minister of finance- in appropriate form including treasury bills and bonds for;
 - ⌘ a) financing budget deficits
 - ⌘ b) treasury and monetary policy management
 - ⌘ c) obtaining foreign currency
 - ⌘ d) on-lending to an approved institution
 - ⌘ e) otherwise defraying exp which may be lawfully be defrayed

- ✓ **The Budget Act (2001)**
- ✗ Provides regulatory framework for planning and reporting

Provision in the public finance bill, 2012

- The Public Finance Bill, 2012, Part V, Articles 32 – 40 provides for authority to raise loans, guarantees and grants, expense of loans, management government debt.
- Part II Article 10 - articulates the role of Parliament on Public resources

Loan Acquisition process at a glance

Responsibility	Responsibility Center
Project Identification	SWGs- Sector Institution
Submit project proposals	SWGs
Project Review and Scrutiny	MFPED (DC)
Creditor identification	MFPED
Authorize borrowing	CABINET
Approve borrowing	PARLIAMENT
Provide legal opinion on legality of each external loan	Attorney General/ Solicitor General
Inventory of loan agreements	MFPED and BOU
Implementation	MDA

Role of cabinet AND PARLIAMENT

Cabinet

- Principally - Authorise acquisition of external financing

Parliament -

- Approve acquisition of external financing and Monitor Utilisation/Execution

Loan scrutiny and approval process

- The loan scrutiny and approval process follows the loan acquisition table alluded to under slide 9

What to look for?

- **Rationale** – justification or rationale for the policies underpinning the investment? (Strategic Impact)
- **Relevance** - implications for the intervention in the wider socio-economic environment and in the context of overall Government Policy?

Loan scrutiny and approval process

- **Effectiveness** – Is the intervention commensurate with the financial and physical objectives
- **Efficiency** – could more be achieved for the same resources? (Economic Rationale)
- **Environmental impacts**
- **Equality** – impacts on various groups in society
- **Terms and conditions therein**

What is the role of MoFPED

- **Policy guidance** - overall external financing needs, Debt sustainability Analysis, overall external Debt Policy
- **Debt management** - Monitor Government external loan, Service external debt payments, Monitor Execution, Review & approval withdrawals, Present to parliament information on utilisation of Development Assistance

Current Loan Terms

Creditor	TERMS				
	Maturity Period (Yrs)	Grace Period (Yrs)	Interest rate	Commitment Charges	Management Charges
IDA	40	10	0.75%	0.50%	
AfDB	40	10	0.75%	0.50%	
NDF	40	10	0.75%		
IFAD	30	10	0.75%		
BADEA	24	5	2.50%	-	-
SAUDI FUND	30	10	1.00%	-	-
Kuwait Fund	40	5	1.50%	0.05%	0.50%
KOREA	40	15	0.01%		0.10%
CHINA	30	10	0.01%		
CHINA-EXIM BANK	20	5	2.00%	0.75%	1.00%
EIB	15	3	1.00%		
	20	5	1.745%		
IMF	10	5	0.50%		
IDB	30	10 (20)			2.50%
	10	3			0.75%
	25	7			2.50%
Japan - JICA	40	10	0.01%		
OPEC	24	5	1.00%		
	20	5	1.25%		1.00%

CONCLUSION

- Cabinet and Parliament are critical pillars in external financing acquisition and utilisation