

CHALLENGES IN DEBT MANAGEMENT: UGANDA'S STATUS

1ST OECD FORUM ON AFRICAN PUBLIC DEBT
MANAGEMENT

Amsterdam Netherlands

December 7th – 8th 2006

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Introduction

- 48% of the national budget is donor funded. *This has discouraged application of Treasury securities for fiscal purposes.*
- 75% of the \$4.4 bn of the external debt was forgiven under MDRI (30/6/06). *Uganda more attractive as a borrower but could become vulnerable to debt distress without a strategy.*
- **Outstanding Debt:** Treasury securities **\$1bn.** (45%), Domestic non securities arrears **\$0.3bn.** (10%) and External Debt \$0.99Bn. (45%). *Domestic obligations more prominent in the national budget.*

TA: Need to develop a strategy to achieve an optimum balance between external debt and domestic debt.

Introduction (Contd.)

Challenges:

- Uganda has to be more pro-active and forward looking in formulating of a national vision and the application of strategy for debt management in order to prevent returning to conditions of un-sustainability.
- There is a need to develop fiscal instruments to contribute in a competitive and reliable manner to future budget needs.

TA: Need to develop a national comprehensive plan that is designed to promote more coordination, sustainability, transparency and accountability of all concerned institutions and other stakeholders.

Relationship Between Debt Management and Macroeconomic Framework

- There are weekly interactions between CB and MOF to coordinate the conduct of fiscal and monetary operations.
- Shilling appreciation – high donor inflows, migrant remittances and export receipts upset balance of using domestic securities and forex sales as monetary policy tools.

Challenges:

- Need to identify and separate instruments for monetary policy and fiscal operations.
 - Treasury securities are used only for monetary policy*
- Must introduce fiscal instruments to support budget when donor funds decline in future.
- Need to introduce a system to coordinate debt management in an environment of inflows from donors, exports, migrant remittances.

TA: Develop comprehensive long-term plan to coordinate fiscal and monetary policies.

Access to new sources of funding

- After MDRI, Uganda's debt will be highly sustainable (using HIPC framework and LIC methodology)
- The country's classification as a strong performer under the World Bank CPIA (Country Policy & Institutional Assessment) Index constrains its access to grant financing

Challenges

- The challenge is whether Government and creditors will not take advantage of the situation and take on more loans which could cause debt distress again.

TA : Need to develop long term sustainability paths and enhance methodology of analyzing debt to facilitate managing risks in future borrowing decisions.

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Limited resources

- Both the Central bank and the MOF have constrained budget for developing capacity for debt management.
- High staff turnover because of lack of a comprehensive national plan and institutional arrangement, including appropriate remuneration packages, for debt management.

Challenge:

- Need to elevate the priority of governance and accountability to promote awareness of the need to install a comprehensive debt management strategy and implementation plan.

TA: Capacity building for technical staff in CB and MOF and promote awareness of governance and accountability amongst the policy makers, including members of parliament.

Quality of Information

- Parallel record keeping in CB and MOF requires manual reconciliation and requires the development of a automatic disasters recovery program. Software not of the same upgrade level.

Challenge:

- **Need to upgrade software and become more coordinated in managing data base**

TA Need to enhance skills capacity and promote, integration and coordination between the front, middle and back offices. Need to compare software and examine plans and commitments of development partners.

Developing a local market for government securities

- Treasury securities markets are dominated by commercial banks who needs match their short-term liability deposits with short-term treasury bills thus holding back the development of the bond market.
- Need to attract more investors in the long-end of the Treasury securities market by liberalizing the pension industry.

Challenges:

- Develop financial instruments to channel migrant remittances more effectively into national programs like the development of a mortgage program.
- Promote investor awareness and education to increase the diversity the investor base.
- Include local government and municipal councils in the overall national debt management strategy.
- Introduce tax incentives to promote the demand for Treasury, local Government and municipal securities.

Priorities for development

- (1) Develop, document and adopt a consensus amongst stakeholders on a national vision for institutional set up and strategy for achieving best practice in debt management.
- (2) Promote awareness of the vision and the debt management strategy amongst policy makers, technicians and the general public.

Priorities for development (cont.)

(3) Develop a phased implementation plan

Phase I: Take an Inventory of pre-requisites e.g. laws, skills capacity, funding for DMO, etc.

Phase II: Formalize institutional roles and engage TA to finalize laws, build capacity and plan funding for new organizational structure.

Phase III: Conduct debt management according to the law and best practice