CHALLENGES IN DEBT MANAGEMENT: UGANDA’S STATUS

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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.
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