PUBLIC DEBT AND OTHER FINANCIAL LIABILITIES MANAGEMENT FRAMEWORK
FY 2023/24- FY 2027/28

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

DECEMBER **2023**

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LIST OF ABBREVIATIONS

AO	Accounting Officer
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
BoU	Bank of Uganda
CCS	Commitment Control System
CPIA	Country Policy and Institutional Assessment
DSA	Debt Sustainability Analysis
EAC	East African Community
EDS	External Debt Strategy
GDP	Gross Domestic Product
GoU	Government of Uganda
HIPC	Heavily Indebted Poor Country
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
MDRI	Multi-lateral Debt Relief Initiative
MoFPED	Ministry of Finance, Planning and Economic Development
MTDS	Medium-Term Debt Management Strategy
PDMF	Public Debt Management Framework
PPG	Public and Publicly Guaranteed
PPP	Public Private Partnerships
PV	Present Value
SWG	Sector Working Group
NDP	National Development Plan
DS	Debt Strategy
FY	Financial Year
LoS	Letters of Support
PFMA	Public Finance Management Act
CFR	Charter of Fiscal Responsibility
FRS	Fiscal Risk Statement
IRR	Internal Rate of Return
PIMS	Public Investment Management System
GFS	Government Financing Strategy
SOEs	State Owned Enterprises
SPV	Special Purpose Vehicle
UFC	Uganda Consolidated Fund

CFF	Contractor Facilitated Financing
ECAs	Export Credit Agencies
PD	Primary Dealer
DMO	Debt Management Office
PFIS	Public Finance Investment Strategy
LIBOR	London Interbank Offering Rate.
SOFR	Secured Overnight Financing Rate
EURIBOR	Euro Interbank Offered Rate
DMFAS	Debt Management & Financial Analysis System
CL	Contingent Liability
MDAs	Ministries, Departments & Agencies
CSD	Central Securities Depository
DC	Development Committee
PSC	Private Sector Credit
IFI	International Financial Institution

FOREWORD

Our framework has been designed to be flexible, adaptable, and responsive to changing circumstances, while also providing clear guidelines and strategies for managing public debt.

The 2023 Public Debt Management Framework (PDMF 2023) outlines a comprehensive strategy for managing public debt over the next five years. This framework has been developed following extensive research and consultation with key stakeholders in the financial and economic sectors. It is designed to ensure that our public debt remains sustainable, affordable, and well-managed.

The global economic landscape has been changing rapidly in recent years due to, among others, the impact of COVID-19, unfavorable geopolitical developments (rivalry between China & the USA and Russia's war in Ukraine) which have disrupted and brought upon a recasting of various global markets. It is critical that we adapt to these changes to ensure long-term financial stability. Our framework has been designed to be flexible, adaptable, and responsive to changing circumstances, while also providing clear guidelines and strategies for managing public debt.

Over the next five years, our focus will be on ensuring that our public debt is maintained at manageable levels, while also investing in critical infrastructure, social programs, and other important initiatives that will drive economic growth and development.

We will achieve this by implementing a range of strategies, which include:

i. Developing a comprehensive debt management strategy that balances the need for borrowing with the need for sustainable debt levels.
ii. Building strong relationships with international financial institutions and investors to ensure access to capital at competitive rates.
iii. Enhancing risk management practices to mitigate the impact of potential shocks and economic downturns.
iv. Strengthening our debt reporting and monitoring systems to ensure transparency and accountability.
v. Exploring innovative financing solutions, including the use of green and sustainable bonds, to support our environmental and social goals.

The FY 2023 PDMF will be implemented together with other GoU frameworks and strategies to provide a solid foundation for managing our public debt in a sustainable and responsible manner. This will help us achieve our goals and build a prosperous and sustainable future for GoU.

Matia Kasaija (M.P)
MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

EXECUTIVE SUMMARY

The 2023 Public Debt Management Framework marks the sixth iteration of debt policies, tracing back to 1991. This framework articulates principles, Government commitments, strategies, and benchmarks crucial for shaping public debt decisions during the upcoming five-year period, extending until FY2027/28.

The primary aim of this framework is to highlight financing solutions that address the government's fiscal deficit, carefully weighing the balance between cost and risk to ensure sustainable funding for economic growth and development. This approach aims to finance the Government's deficit in a manner that effectively navigates the cost-risk trade-off.

While prior PDMFs achieved the goal of financing the government's fiscal deficit, they fell short in adequately addressing concerns related to fiscal consolidation in terms of debt accumulation and debt servicing. The 2018 PDMF, particularly, did not fully implement prescribed provisions and thresholds, such as borrowing limits, interest rate controls, and policy actions for debt management.

The broader objective of this PDMF is to secure government financing needs while considering the cost-risk trade-off, ensuring debt sustainability over the medium to long term . The introduction of benchmarks and limits in the 2023 PDMF assesses the cost and risk of the external and domestic debt portfolio, as well as contingent liabilities. Qualitative thresholds for debt sustainability, target ranges for risk management, and debt composition are outlined, serving as criteria for evaluating the framework's performance.

Contingent liabilities, including legally binding government loan guarantees and non-guaranteed public debt, are recognized within the framework's scope. The risk management section identifies and provides remedial actions for various risks within and outside the public debt portfolio. Emphasis is placed on identifying and mitigating risks before they mature.

The framework will guide the Debt Management Office in managing debt risks, outlining procedures for monitoring, and evaluating government debt risks. The institutional roles of responsible centres coordinating debt processes, along with mechanisms for debt reporting, are detailed in this framework.

Overall, the 2023 Public Debt Management Framework establishes a comprehensive set of principles, guidelines, Government commitments, qualitative benchmarks, and a legal framework to prudently contract, utilize, monitor, and manage public debt until FY2027/28.

Ramathan Ggoobi
PERMANENT SECRETARY AND SECRETARY TO THE TREASURY

"The framework will guide the goverment of Uganda in managing debt risks, outlining procedures for monitoring, and evaluating government debt risks

CHAPTER

01

INTRODUCTION

CHAPTER ONE: INTRODUCTION

1.1 Introduction

Section 42(1) of the Public Finance Management Act (2015) gives responsibility for the management of public debt, guarantees and any other financial liabilities of government to the Minister responsible for finance. In line with this mandate, the Ministry of Finance, Planning and Economic Development prepares the Public Debt Management and Other Financial Liabilities Framework (PDMF).

The framework provides a comprehensive tool for managing public debt and other financial liabilities, in line with emerging market conditions and risks to achieve sustainable financing for long term economic growth and development. The PDMF offers a diverse set of financing tools, comprising a combination of conventional sources (concessional and non-concessional loans), and new emerging financing options such as climate finance, alternative financing methods, cross currency repurchase transactions, Export Credit Agency (ECA), Public Private Partnerships (PPPs), among others. The framework defines the general guidelines, benchmarks, legal and institutional framework for sourcing, utilizing, and managing public debt.

1.2 Background

The Government of Uganda (GoU) has been working to manage its public debt prudently since 1991 when the External Debt Strategy (EDS) was developed, focusing on achieving external debt relief. Subsequently, the PDMFs were developed in 2013 and 2018 with the aim of ensuring public debt sustainability by balancing debt levels with the country's ability to service them.

The 2018 PDMF review indicates that GoU did not fully implement the provisions and thresholds outlined in the previous PDMFs. This ranged from failing to meet set borrowing thresholds and interest rate controls and failure to implement policy actions for debt management. While there was general fulfilment of the objective of financing government fiscal deficit by the previous PDMFs, the planned objectives did not adequately address issues pertaining to fiscal consolidation[1].

Consequently, Uganda's overall risk of debt distress has shifted from low to a moderate level and Fitch, a credit rating agency, has revised Uganda's credit rating from B+ Stable to a negative outlook. Furthermore, development partners are now closely monitoring countries' borrowing capacity in areas such as debt management, fiscal sustainability, and debt transparency.

The new PDMF is therefore expected to address these shortcomings and devise effective strategies to achieve the planned thresholds[2].

1.3 Problem Statement

The 2023 PDMF provides a comprehensive tool for managing public debt and other financial liabilities. Public debt is defined, in accordance with Article 160 (2) of the Constitution of Uganda, as that which includes interest on debt, sinking fund payments in respect to that debt and costs, charges, and expenses incidental to the management of that debt. Section 3 of the Public Finance Management Act 2015 (PFMA 2015) stipulates that government debt is a financial claim on the government that requires payment by the government of the principal or principal and interest to a creditor.

The government, over the past medium term, has breached some of the set borrowing benchmarks in the 2018 PDMF as illustrated in ***table 1*** and has not realized success in areas regarding fiscal consolidation.

1 Uganda's public debt has continued to increase in recent years, leading to concerns about debt sustainability. As of June 2023, Uganda's total public debt stood at USD 23.21 billion, equivalent to 46.2% of the country's Gross Domestic Product (GDP).

2 The PDMF is prepared in line with Uganda's Vision 2040, the National Development Plan, and other planning frameworks, including the NRM Party's Manifesto and the Programme Strategic Investment plans.

Table: 1 Benchmarks breached during the last five years

Indicator	Benchmark 2018	End June 2023
Present Value of Domestic debt stock / GDP	15%	18.7%
Domestic debt interest payments / Total revenues (excluding grants)	12.5%	18.2%%
Total Domestic debt interest Payments / Total expenditure	10%	13.4%

This is because of increased borrowing to meet public expenditure requirements over the medium and long term. This has resulted in an increase in debt service burden due to the rise in interest rates. It is an expense on other welfare enhancing sectors of the budget. The overall consequence of exceeding the set borrowing thresholds is the downgrading of Uganda's risk rating from low to moderate risk of debt distress.

This new PDMF provides essential policy guidance in the acquisition, utilization and management of external debt, domestic debt, contingent liabilities, and domestic arrears. This will promote prudent responsible borrowing practices. It also aligns with the evolving economic landscape, policy changes, and global financial market conditions.

The Framework will emphasize the use of a mix of concessional, non-concessional and alternative financing options and will place strong emphasis on debt sustainability, diversification of financing sources, and transparency in debt management.

1.4 The Public Debt Policy Strategic Objectives

The primary goal of this debt framework is to guide securing financing to meet the government's fiscal deficit, taking into consideration the balance between cost and risk for sustainable financing for economic growth and development. This will enable the government's deficit to be financed in a manner that balances the cost-risk trade-off. Additionally, the framework aims to maintain debt sustainability over the medium to long-term horizon.

This involves ensuring that public debt levels remain within sustainable limits and do not pose a risk to the country's long-term economic stability. Furthermore, the framework emphasizes the need for efficient utilization of the borrowed resources.

The Public Debt Policy strategic objectives refer to the key goals and aims that guide Uganda's public debt management. These objectives include:

i. **Ensuring debt sustainability**: This refers to maintaining Uganda's public debt levels within sustainable levels[3] and not posing a risk to the country's long-term economic stability. This involves balancing the need for borrowing to finance development projects with the ability to service the debt.

ii. **Diversifying sources of financing**: This aims at reducing reliance on limited sources of financing and exploring a range of options. This includes accessing non-concessional financing, deepening the financial markets, innovative climate finance tools, and promoting public-private partnerships.

iii. **Enhancing transparency and accountability**: This promotes transparency and accountability in public debt management. It involves disclosing information about the level and composition of public debt, the terms and conditions of borrowing, and the use of borrowed funds.

iv. **Improving debt management capacity**: This aims to enhance the capacity of institutions responsible for managing public debt. This includes building the skills and knowledge of debt managers, improving debt recording and reporting systems, and strengthening debt risk management frameworks.

v. **Promoting coordination and collaboration**: This seeks to promote coordination and collaboration among stakeholders involved in public debt management. This includes working closely with the Ministry of Finance, Planning, and Economic Development, the Central Bank, and other relevant institutions.

3 *Sustainable levels are maintaining a manageable balance between government borrowing and economic capacity. This involves considerations such as a prudent debt-to-GDP ratio, the government's ability to service debt, fostering economic growth, maintaining fiscal discipline, and accounting for external factors.*

1.5 Scope of Debt of the Framework

The scope of Public and Publicly Guaranteed Debt (PPG) and other financial liabilities includes all debt obligations that are incurred by the GoU, its agencies, and other public entities.

This includes both domestic and foreign debt, as well as debt that is publicly guaranteed by the government. Other financial liabilities include unpaid bills and arrears, such as outstanding payments for goods and services provided to the government, unpaid salaries and pensions, and other obligations that have not been settled by the due date. Therefore, the scope of debt covered in this Framework is public and publicly guaranteed debt and other financial liabilities,which includes:

i. ***External Debt***

- External debt stock includes disbursed and outstanding liabilities that are denominated in foreign currency. To be included in the external debt stock, a liability must be an actual and current outstanding obligation that requires the debtor to make payments of principal and/or interest at some point(s) in the future.

- Undisbursed external debt refers to all commitments that have not yet been drawn from creditors[4].

ii. ***Domestic debt*** stock refers to the total outstanding debt obligations that are denominated in the local currency of Uganda, which is the Ugandan Shilling (UGX). Domestic debt is issued by the government through various instruments, such as Treasury bills, Treasury bonds, and other government securities, and is held by individuals, financial institutions, and other investors within the country.

iii. ***Domestic arrears***

Government domestic arrears are obligations owed by the government to domestic creditors that remain unpaid beyond the specified timeframe. Effective management of these arrears is integral to maintaining financial stability, fostering trust, and upholding the government's fiscal responsibility. It is imperative to establish clear guidelines and mechanisms for the identification, prevention, and resolution of domestic arrears.

To achieve this, the framework will encompass proactive measures to prevent the accumulation of arrears, including robust budgeting processes, timely approvals, and efficient cash flow management. Additionally, a transparent reporting system will be established to monitor and disclose the status of government domestic arrears regularly.

iv. ***Other financial liabilities.***

Contingent liabilities. These are potential liabilities that the government may incur in the future, based on certain conditions or events including loan guarantees and non-guaranteed borrowing of ministries, departments and agencies (MDAs). guaranteed debt falls in the category of contingent liabilities as it only becomes a debt obligation to the government in the event of default by the guaranteed entity[5].

> ***The scope of debt covered in this Framework is Public and Publicly Guaranteed Debt and other financial liabilities***

4 *Undisbursed external debt commitments represent potential future liabilities that may be incurred by the government or its agencies.*

5 *Financial liabilities are not yet recognized on the government's balance sheet as they are not yet due, but they are disclosed in the notes to the financial statements.*

1.6 Current Legal Framework

This section gives a summary of the current legal framework in Uganda and how it relates to the country's debt structure.

The legal framework that governs debt management in Uganda is defined by several key pieces of legislation, including the Constitution of Uganda, the Public Finance Management Act (PFMA) 2015, the Treasury Bills Act 1969, the Bank of Uganda (BoU) Act 2000, and the Local Government Finance Act (1997). In addition, GoU has formulated policies, guidelines, and a framework for the management of public debt.

i. **The Constitution of the Republic of Uganda 1995.**
The Constitution sets out the framework for the management of public debt in Uganda. Specifically, Article 159 of the Constitution provides for the control of public debt where Parliament is responsible for approving all loans, and other forms of public borrowing by the government. This includes both domestic and foreign borrowing, as well as guarantees issued by the government[6].

ii. **The Public Finance Management Act (PFMA 2015).**
Sections 36-43, provides guidance on various aspects of public debt management, including the authority to raise loans, managing the risks associated with public debt, managing loan-related costs, guaranteeing loans, repayment, and project management. Section 5 of the PFMA 2015 requires the Charter for Fiscal Responsibility (CFR) to be laid down[7].

iii. **The Uganda Treasury Bills Act, 1969.**
This provides for the issuance and management of government securities in Uganda, which includes Treasury bills, Treasury bonds, and other debt instruments issued by the government. The Act provides a framework for the issuance, trading, and management of government securities in Uganda, with the aim of promoting transparency, efficiency, and stability in the government securities market.

iv. **Bank of Uganda Act 2000.**
The Act gives MoFPED the responsibility for formulating and implementing fiscal policy, including managing, developing, and implementing debt management strategies and policies, in consultation with the Bank of Uganda. With respect to government treasury securities, the Act provides that the BoU shall act as the fiscal agent of the government.

v. **The Uganda Local Government Finance Act, 2019.**
Provides for the borrowing powers and limitations of local governments in Uganda. According to the Act, a local government may only borrow if it has been authorized to do so by the Ministry responsible for local government. Section 88[8] of the Act specifically addresses non-guaranteed borrowing by local governments.

vi. **Charter for Fiscal Responsibility (CFR) (2022).**
The fiscal objective has four aims. One; to reduce the public debt in nominal terms to below 50% of GDP by FY 2025/26. Two; to reduce the total domestic debt interest payments to total revenues (excluding grants) to 12.5%. Three; to maintain the nominal publicly guaranteed debt to GDP to below 5%. Four; to ensure that Government borrows from the Bank of Uganda only in accordance with section 36 (5)(a) and (b) of the Public Finance Management Act, 2015 as amended and section 33 of the Bank of Uganda Act.

vii. **The National Development Plan III.**
The NDP III recognizes the importance of debt management in ensuring the sustainability of the country's debt position. It sets out several objectives, strategies, and actions that are aimed at strengthening debt management practices

6 The Constitution further provides that any such borrowing must be approved by a resolution of Parliament, and that the terms and conditions of the borrowing must be disclosed to the public.

7 The Charter for Fiscal Responsibility outlines the principles of fiscal policy, including maintaining prudent and sustainable levels of public debt, in accordance with Section 4(2b) of the Act.

8 States that a local government may borrow without a government guarantee if the borrowing does not exceed 10% of the local government's total revenue for the preceding fiscal year.

in Uganda. Some of the key objectives outlined in the NDP III related to debt management include:

i. To maintain a sustainable debt position that does not compromise macroeconomic stability and growth.
ii. To reduce the vulnerability of the economy to external shocks by diversifying the country's sources of financing and reducing reliance on external borrowing.
iii. To improve the efficiency and transparency of debt management practices and strengthen institutional capacity in debt management.

viii. **The Public-Private Partnership (PPP) Act, 2015 of Uganda**.

Section 25 of the PPP Act specifies that the government may incur public debt to finance PPP projects, subject to certain conditions. These conditions include obtaining approval from Parliament and complying with the borrowing limits set out in the Public Finance Management Act, 2015. The Act also requires that the government:

i. Ensures that any public debt incurred for PPP projects is sustainable, considering factors such as the expected economic benefits of the project, the impact of the debt on the government's fiscal position, and the risks associated with the project.
ii. Maintains a comprehensive record of all public debt incurred for PPP projects, including information on the purpose, amount, and terms of the debt.
iii. Reports regularly to Parliament on the status of public debt incurred for PPP projects.

ix. **The Public Investment Financing Strategy (PIFS) 2022**

The PIFS plays a key role in guiding public investment and sets out the government's strategy for financing development programs. One of the main objectives of the PIFS is to ensure alignment of government programs to suitable financing options, leverage on additional innovative financing and providing strategies to enhance the potential of the financing sources[9].

x. **Public Procurement and Disposal of Public Assets Authority (PPDA)**

Section 4A (1). Procurement procedures under bi-lateral tied loans. Where a bilateral loan or negotiated grant contains a condition that the provider shall originate from the country of the donor, procurement of the provider shall be in accordance with PPDA Act.

1.7 Structure of the Document

The rest of the report is structured as follows. Chapter two describes the general principles and benchmarks for acquisition, management, and utilization of debt; Chapter three provides analysis of the external debt framework; Chapter four turns to the domestic debt framework; Chapter five takes up domestic arrears; Chapter six handles other financial liabilities framework; Chapter seven presents the risk management structure; and Chapter eight concludes the report by explaining the institutional and reporting structure.

9 The PIFS provides guidance on how to prioritize, mobilize resources and manage the risks associated with public investment.

CHAPTER

02

PRINCIPLES AND GOVERNMENT COMMITMENTS FOR ACQUISITION, AND UTILISATION OF PUBLIC DEBT AND CONTINGENT LIABILITIES

CHAPTER TWO: PRINCIPLES AND GOVERNMENT COMMITMENTS FOR ACQUISITION AND UTILISATION OF PUBLIC DEBT AND CONTINGENT LIABILITIES

2.1 The principles for the acquisition and utilization of public debt and contingent liabilities.

These are set of guidelines that are used by governments to ensure that public debt and other contingent liabilities are acquired and utilized in a responsible and sustainable manner. These principles are aimed at promoting transparency, accountability, and prudent fiscal management.

2.2 Government commitments for acquisition and utilization of public debt

Some of the key Government commitments for the acquisition and utilization of public debt and contingent liabilities include:

i. **Sustainability**: Ensure that public debt is acquired and utilized in a manner that is sustainable, considering factors, such as the expected economic benefits of the project, the impact of the debt on the government's fiscal position, and the risks associated with the project.

ii. **Transparency**: Ensure that the acquisition and utilization of public debt is transparent and open to public scrutiny. This includes providing detailed information on the purpose, amount, and terms of the debt.

iii. **Accountability**: Governments should ensure that those responsible for acquiring and utilizing public debt are held accountable for their actions[10].

iv. **Prudent fiscal management**: Governments should ensure that the acquisition and utilization of public debt are consistent with sound fiscal management principles.

v. **Risk management**: Governments should ensure that risks associated with the acquisition and utilization of public debt are identified, assessed, and managed in a prudent manner[11].

vi. **Consistency:** Government should ensure that acquisition and management of public debt is in alignment with the existing legal frameworks and policies.

vii. **Inclusiveness:** Government should ensure that public debt is acquired and utilized in an all-inclusive manner according to the laws of Uganda.

viii. **Equity:** All creditors, be they concessional, non-concessional or commercial, shall receive equal tax treatment, with no discriminatory tax liabilities or advantages provided to any specific lender.

10 Accountability includes establishing clear lines of responsibility and ensuring that those responsible for managing public debt are held to high standards of integrity and professionalism.

11 This includes implementing risk management frameworks and contingency plans, as well as monitoring and reporting on risks associated with public debt.

2.3 Principles for Acquisition and Utilization of Public Debt

i. The government will strive to maintain a ratio where the total amount of interest paid on both domestic and external debt should not exceed 20% of the government's total revenue, excluding grants.

ii. Total debt service to revenues threshold should aim at reducing from 32.9% as at end June 2023 to 25% by the end of the framework.

iii. All public debt acquisition shall adhere to the benchmarks and targets enshrined in the Charter for Fiscal Responsibility.

iv. All public debt reporting made by relevant authorities required by law should be done in consultation with the Ministry of Finance, Planning and Economic Development.

v. The government shall consistently prepare and publish the debt reports, strategies, and bulletins in the prescribed periods. The Statistical Bulletins shall be produced quarterly while the Medium-Term Debt Management Strategy (MTDS), Debt Sustainability Analysis Report (DSA) and Contingent Liabilities Report, annually.

vi. All debt financing shall be acquired and contracted in line with the provisions of the Public Investment Finance Strategy (PIFS) 2022

vii. GoU shall strive to achieve and maintain a rating of low risk of debt distress.

viii. MoFPED will implement a debt portal on the website to ease information access on debt related issues.

ix. At the end of each fiscal year, there will be a full year-end review of debt management performance, in line with best international practice. This will be published in an annual debt management report.

CHAPTER 03

EXTERNAL DEBT FRAMEWORK

CHAPTER THREE: EXTERNAL DEBT FRAMEWORK

3.1 External Debt Government commitments

The external debt framework is to offer principles that support responsible external borrowing by the government. Additionally, the framework sets benchmarks against which the performance of this debt management strategy will be evaluated.

To achieve the debt management framework objectives, the following specific principles, government commitment and their respective quantitative limits are important.

i. The Government's Public Investment Financing Strategy (PFIS) suggests that mapping must be followed, in consistency with the National Development Plans, the Medium-Term Debt Management Strategy, and other regional and international development frameworks where Uganda is a signatory shall also be followed.

ii. Consideration for the review of financing terms for an expression of interest shall be subject to the project's fulfilment of the Public Investment Management System (PIMS) process.

iii. An MDA shall not be allowed to borrow from external financing for any project that requires GoU contribution if the counterpart funding is not earmarked or provided for in the Medium-Term Expenditure Framework.

iv. GoU shall not take on pre-financing unless the funds are accommodated and committed in the multi-year budget for repayment and there are no encumbrances on site.

v. GoU will not consider Alternative Financing Modality (AFM) unless the contractor fulfills the AFM guidelines.

vi. GoU will be cognizant of the risk ratings under the Debt Sustainability Analysis (DSA) framework for every Financial Year's borrowing plan and will strive to achieve and maintain a rating of low risk of debt distress.

3.2 Principles for External Debt

1. The government shall continue to pursue concessional and non-concessional borrowing to meet the external financing requirements through the underlined guidelines.

a) Social and Human Capital Development projects shall be financed at concessional terms with a grant element of at least 35%.

b) Consideration for non-concessional loans (*direct and/or Export Credit Agencies (ECA's)*) lending with a grant element of less than 35% shall be contracted on condition that:

i. The projects provide an economic rate of return greater than the interest rate charged.

ii. The project ***economic net present value*** (ENPV)[12] and the ***internal rate of return*** is greater than 12%.

iii. The effective interest rate on the cost of financing at any given time should be less than or equal to the applicable benchmark rate (SOFR & EURIBOR) plus 250 basis points.

12 *The Economic Net Present Value (ENPV) of a project is a metric that assesses the economic viability by considering both financial cash flows and broader economic impacts, such as externalities and social considerations, providing a comprehensive measure of the project's value.*

2.. The minimum amount for any non-concessional external borrowing shall be US$10 million.

3. MDA will not be allowed to access new external financing if more than half of ongoing projects under its supervision have exceeded the initial project period.

4. Where additional financing for a project is sought, the MDA shall be required to have disbursed not less than 70% on the same project.

5. The external commercial financing for the general budget will not exceed 3.0% of the previous fiscal year's domestic revenue collection.

6. In the five-year period of this framework, GoU shall not issue a Eurobond on the international financial market.

7. GoU shall explore and pursue innovative climate financing windows such as debt for nature swaps arrangements to foster debt sustainability. Uganda is immensely endowed with natural resources which can be leveraged to pursue debt for nature swaps arrangements.

8. Loan funding will not be processed for projects where counterpart funding is required but not budgeted for by the MDA.

3.3 Guidelines for undertaking derivative transaction under external debt.

The primary objective of undertaking derivative transactions shall be to minimize foreign exchange and interest rate risks[13].

i. Government shall analyze and provide expert advice on the necessity, purpose, and viability of financial derivative transactions, refinancing or rollover risk, contingent liability risks/ on-lending, and any other relevant risks related to the debt portfolio.

ii. All legal and technical stakeholders shall actively participate at all stages of the transaction, from initial negotiation to the conclusion with the counterparty.

iii. The government shall continuously assess and monitor the risks associated with every derivative transaction.

iv. The derivatives transactions shall follow international best practices that guide derivatives tractions.

v. All derivatives shall be properly documented in the Debt Management and Financial Analysis System (DMFAS) to ensure their effective functionality and appropriate management.

vi. GOU shall undertake interest rate risk management through hedging where appropriate.

13 Periodically the debt management office shall evaluate the country's debt profile and determine the requirement for financial derivatives.

3.4 External Debt Operational Sustainability Indicators

The country's debt sustainability assessment shall be against a set of solvency and liquidity ratios as highlighted in Table 2. Solvency indicators determine the country's ability to meet its external debt obligations in the future. The liquidity indicators on the other hand determine the country's ability to pay its debt.

Table 2: External Debt Sustainability Thresholds

External Debt Sustainability Benchmarks	Jun-23 Outturns	2023 PDMF Thresholds
Solvency Ratios (%)		
- Present Value of External Debt to GDP (PV/GDP)	19.60%	**40%**
- Present Value of External Debt to Export of Goods & Services (PV/XGS)	160.20%	**180%**
Liquidity Ratios (%)		
- Total External Debt Service to Export of Goods and Service (TDS/XGS)	10.50%	**15%**
- External debt interest payments to revenue	3.55%	**7%**
- Total External Debt Service to Domestic Revenue (TDS/XGS)	9.60%	**18%**

Source: MoFPED

CHAPTER 04

DOMESTIC DEBT FRAMEWORK

CHAPTER FOUR: DOMESTIC DEBT FRAMEWORK

Under the PDMF 2023, this section provides principles and quantitative limits within which the government will issue, manage, utilize, and develop the domestic financial market.

4.1 Government commitments and principles of domestic debt borrowing.

i. The Central Bank and MoFPED will strengthen monetary and fiscal policy coordination. This includes the separation of instruments for monetary policy purposes issued by BoU and fiscal policy instruments.

ii. Government, through innovative ways, will support initiatives for development of the domestic debt market.

iii. Domestic debt operations will adhere to the principles of transparency, openness, and predictability.

iv. Annual Net Domestic Financing will be capped to one and half percent (1.5%) of GDP.

v. Government shall only utilize supplementary expenditure raised from domestic debt for infrastructure projects.

vi. MoFPED shall settle outstanding reimbursements to BoU within the same fiscal year in accordance with the BoU Act.

vii. Of the annual appropriated net domestic financing, 30% shall fund infrastructure investments in line with the infrastructure Bond Framework.

viii. Issuance of an infrastructure Bond will be within the Macro-Economic Fiscal Framework.

4.2 Domestic debt operational guidelines and benchmarks

i. Fiscal purposes

The approved budget will indicate the amount of domestic financing including domestic borrowing through treasury securities issuance. The amounts will be in line with the programmed fiscal deficit path and medium-term fiscal framework.

ii. Monetary policy

BoU will conduct monetary policy using fine-tuning instruments (repos). The costs of monetary policy operation will be borne by BoU. In case of impairment of the core capital of BoU, the Treasury shall provide recapitalization through government securities, and these may be used for monetary policy.

iii. Cash management

Cash management operations – i.e., the process of ensuring that GoU always has enough cash/liquidity available to meet its expenditure needs as they arise – will be conducted using Treasury Bills issuance with maturities of less than 1 year[14]. Within the timeframe of this framework, GoU will reduce issuance of Treasury Bills with less than 1-year maturity for fiscal purposes and focus on using them for Cash Management.

4.3 Domestic debt sustainability benchmarks

Domestic debt sustainability indicators are meant to support debt sustainability over the long term. They provide key thresholds against which Government should check debt issuance[15].

14 Cash management operations will benefit monetary policy and reduce the net liquidity injections by GoU.
15 The benchmarks are limits which should be taken into consideration during formulation of annual and medium-term debt management strategies.

Table 3: Domestic debt sustainability benchmarks

Total Debt Quantitative Sustainability and Risk Benchmarks		
	Jun-23	**2023-PDMF Benchmark**
Domestic debt stock / GDP	18.70%	< 15%
Total domestic debt interest payments / Total revenues (excluding grants)	18.20%	< 15%
Net Domestic Financing /GDP	2.10%	<1.5%
Domestic debt stock/Private sector credit	169%	<100%

Domestic debt stock/GDP: At the end of June 2023, the present value of domestic debt stock to GDP was 18.7%. During this PDMF period, Government will ensure that the present value of the domestic debt, as a proportion of GDP, declines to 15%. This is in line with prudent fiscal risk management.

Domestic debt interest payments/ Total revenues (excluding grants): This benchmark indicates the amount of domestic revenues that cover domestic interest payments. The higher the indicator, the more interest payments crowd out critical expenditure in other sectors of the economy. As such, it is imperative that this indicator is maintained at a low level[16].

Net Domestic Financing/GDP: For the FY 2022/23, net domestic financing to GDP was 2.1%. Government will ensure that annually this is anchored at 1.5% under this PDMF period.

Domestic debt/Private sector credit: This indicates the level of government domestic borrowing relative to borrowing of the private sector. Private sector credit is crucial in economic growth and the government should limit crowding out of private sector credit. As of June 2023, public domestic debt was 169% of private sector credit; this ratio should also decline over the medium term to 100%.

Table 4: Domestic debt risk benchmarks

Risk Management Benchmarks	Jun-23	2023 PDMF Benchmark
Percent maturing within 1 year	23.20%	< 25%
Percent maturing in each year after year 1	12.4%; 1.2% for maturities in 2 and 3 years respectively, and remainder for maturities beyond 3 years.	< 15%
Average Time to Maturity (ATM) (years)	6.9 years	> 6.5 Years

Source: MoFPED

16 As of June 2023, domestic debt interest to revenue was 18.2%, an indication of significant constraint to expenditure on other budget items. In the medium-term, under this PDMF period, this indicator has been lowered to 15% in line with the fiscal framework.

The benchmarks above will be used to guide the country's domestic debt risk exposure and assess debt management performance. The benchmarks are discussed below.

Percent Maturing in One Year: 23.2% of the current domestic debt is estimated to mature within the next year. To mitigate refinancing risk, the medium-term target of the portion of the domestic debt portfolio maturing within one year is 25%.

Percent maturing in each year after year one: Under PDMF 2023, the share of the domestic debt portfolio maturing in any year after year one (the coming twelve months) willbe capped at 15%.

Average Time to Maturity (ATM): As of June 2023, the ATM stood at 6.9 years, indicating the average life for the current domestic debt, which is higher than the target of 6.5 years that will be pursued under PDMF 2023 to lower the refinancing risk exposure.

GoU will continue to monitor the full shape of the redemption profile. GoU will also take note of concentrations of large maturities in small periods of time, which will be managed through operations, such as bond switches[17] and debt buy-backs. The redemption profile shall be assessed before new issuances are made to smoothen the maturity structure.

4.4. Measures to develop the domestic debt market.

The domestic debt market is paramount in the development of the financial sector. It enables market-based capital allocation, and, at the same time, it creates the possibility for the Government to mobilize resources to finance the development agenda.

Economies across the world have increasingly become interconnected and are thrust in a market-oriented global financial architecture. On that note, domestic financial sectors also need to be market based, which is the case in Uganda.

The domestic financial market also sets the stage for efficient credit allocation in the economy. A deep, efficient, and liquid domestic market addresses issues around actual cost of capital by reducing premium for capital, reduced credit risk, and capital flow management[18].

It is therefore imperative that the Government continues to efficiently develop the domestic financial market as a source of budget financing.

Over the medium term, Government will take the measures below to support the development of the domestic financial market.

a) Budget for each fiscal year will set out clearly the net issuance of securities that are planned for fiscal purposes for the upcoming fiscal year, indicating refinancing and net domestic financing (funds for budget activities).

b) Publish an annual auction calendar indicating dates of issuance to promote openness, transparency, and predictability.

17 A bond Switch is an arrangement where existing holders of a particular bond are invited to voluntarily surrender part of their entire existing bond to the issuer in exchange for another preferred bond(s) by the same issuer.

18 Concessional financing windows for Government are gradually closing on account of vulnerabilities of continued flow of global foreign aid (given recession difficulties in the advanced world); and the development of the country towards middle income status, which automatically shuts out some concessional financing.

c) Publish additional information for the market to improve predictability and transparency, and thus contribute to improving market stability and lowering issuance costs.

d) In coordination with BoU, form a Uganda Bond Market Association to bring together both bank and non-bank market participants, with regular dialogues in form of quarterly investor round tables.

e) New financing instruments shall be introduced, such as infrastructure bonds for productive projects.

f) Continue to pursue a benchmark bond programme to reduce market fragmentation and deepen liquidity. This will involve bond reopening. Bond switches will be used to mitigate refinancing risk that is posed by reopening.

g) Continue to conduct the issuance of treasury securities to investors solely through competitive auctions.

h) Roll out the mobile platform for investment in treasury securities using the mobile phone (mobile money) to promote retail participation and improve financial inclusion.

i) Raise the level of awareness by educatingthe public on government securities.

j) Continue to attract diaspora investors into participating in the securities market and introduce necessary innovations to ease diaspora participation.

k) Review the tax regime to move towards harmonization of withholding tax charged on incomes of government securities withthe EAC regional rates.

CHAPTER 05

DOMESTIC ARREARS

CHAPTER FIVE: DOMESTIC ARREARS

5.1 Background

Domestic arrears pertain to the outstanding debt that a government owes to lenders within its own country, specifically in terms of unpaid interest and principal payments. These unpaid bills extend beyond the fiscal year in which they were initially incurred. Unlike other types of debt, domestic arrears carry significant economic risks, primarily affecting the following:

i. The well-being of pensioners and current employees who are awaiting their due compensation.
ii. Private businesses whose financial stability is compromised, leaving them vulnerable to potential business failure and foreclosure.
iii. Government's increased operational costs, as suppliers tend to charge higher fees to offset the risks associated with delayed payments; and
iv. The execution of the budget since arrears represent off-budget expenses that may not align with the government's established priority areas.

However, addressing domestic arrears has been an ongoing challenge in Uganda, and the government has implemented various measures over the years, to tackle this issue. These have included enhancing the legal framework governing the public fiscal management system, with specific provisions reinforcing the Commitment Control Systems (CCS). The 2021 Strategy has also been implemented to clear and prevent domestic arrears.

5.2 Situation analysis

As of end June 2023, the stock of domestic arrears, excluding local governments, was validated at UGX 2.714 trillion. Arrears have increased under each expenditure category; the key areas being court awards, pensions, salaries, general goods, services, and development expenditure.

Table 5: Summary of stock of arrears central government votes (UGX bn) June 2018 up to end June 2023

Category	End June 2019	End June 2020	End June 2021	End June 2022	End June 2023
Compensations	407.39	434.70		1134.20	334.70
Court Awards	915.00	406.49		31.20	279.57
Pension and Gratuity Arrears	59.05	325.00	34.60	68.77	249.88
Salary Arrears	33.54	6.05	-	-	-
Goods and Services	0.00	586.80	1,009.43		
Development	408.89	207.68	-	-	742.61
Other Recurrent	797.01	1,871.83	559.86	978.86	892.92
Contributions to International Organizations	197.26	108.24	82.69	26.57	16.44
Taxes and Deductions	492.95	46.50	5.66	87.93	54.79
Utilities (Electricity, Water and Telephone)	130.28	78.21	6.45	70.54	103.16

Category	End June 2019	End June 2020	End June 2021	End June 2022	End June 2023
Rent	20.38	21.94	9.10	5.65	39.94
BOU Securities	20.35	-	2,077.05		
Total	**4,010.35**	**4,093.44**	**4,686.42**	**2,403.71**	**2,714.01**

Source: MoFPED

5.3 Principles for domestic arrears management

Considering the unprecedented level of domestic arrears and their root causes, this section outlines proactive and corrective measures, crucial for eliminating existing arrears and maintaining future arrears at a sustainable minimum level. The government will adopt a comprehensive three-pronged approach throughout this framework, and adhere to the 2021 strategy to clear and prevent domestic arrears as detailed below:

Resource mobilization to clear existing arrears:
Goal: Reduce the current arrears, estimated at UGX 2.714 trillion, over the next 5 years.

Strategy: For the lifetime of this framework, GoU will provide an average of UGX 450 billion every financial year to be able to clear the existing domestic arrears.

Goal: Financing domestic arrears with programmed resource growth:

Prioritization Criteria:

- Focus on pensions and salaries due to their impact on poverty reduction.
- Prioritize utilities to mitigate risks to essential public service delivery.
- Address arrears incurring penalties and interest costs promptly.
- Settle arrears on a first-in, first-out basis.
- Preventing diversion of budgeted arrears resources:

Measures to be undertaken to limit resource diversion:

a. Conduct a comprehensive domestic arrears stocktaking and verification exercise to establish a single database with key information for each arrear claim.
b. Expand the arrears budget allocation to show age, with a breakdown by sub-category, supported by a list of eligible creditors.
c. Enhance the Chart of Accounts for detailed performance reports, ensuring real-time information availability for detecting non-compliance with the arrears strategy.
d. Safeguard the budget provision for domestic arrears from in-year re-allocations or cuts, demonstrating zero tolerance for such requests by government. All virements will be subject to consultation with MoFPED.

By aligning with these modernized principles, the government aims to efficiently manage domestic arrears, enhance transparency, and prevent misallocation of resources, thereby ensuring financial sustainability and effective debt management.

> ***As of end June 2023, the stock of domestic arrears, excluding local governments, was validated at UGX 2.714 trillion***

CHAPTER

06

CONTINGENT LIABILITIES FRAMEWORK

CHAPTER SIX: CONTINGENT LIABILITIES FRAMEWORK

6.1 Governance Arrangements

Contingent liabilities are obligations whose timing and magnitude depend on the occurrence of some uncertain future event, usually outside the control of the government. They constitute a fiscal risk and may result in unplanned expenditure by the government.

Prudent risk management can help to identify and mitigate risks arising from contingent liabilities and ensure fiscal sustainability. This framework provides five components necessary for the management of these risks. They are:

(i) Governance arrangements,
(ii) Risk identification,
(iii) Risk analysis and quantification,
(iv) Mitigation,
(v) Reporting and disclosure.

6.2 Governance Arrangements

Governance arrangements outline the scope of risk management and assigns roles and responsibilities to the institutions that make decisions. To facilitate coordination and cooperation among pertinent parties (such as line ministries, agencies, and the Ministry of Finance), explicit processes should be put in place[19].

6.3 Principles for Management of Guaranteed Debt

i. Guarantees issuance will be accorded to priority sectors that have been identified in the National Development Framework/Plan as being of 'national strategic importance' and are expected to deliver a net positive broader economic benefit for the country.

ii. To mitigate exposure from guarantees, GoU shall consider loan guarantees to public corporations/state-owned enterprises (SoEs) based on their creditworthiness. Only institutions that have the capacity to service their debt shall be considered for any borrowing.

iii. All guarantee beneficiaries shall be required to be audited at least once during their lifetime by the Auditor General or a recognized and accredited audit firm.

iv. Guarantees shall only be provided if the proceeds of the underlying loan are earmarked to fund development expenditure.

v. Any entity requesting a guarantee must have existed for, at least, 5 years, except for the case of a special purpose vehicle (SPV) under public-private partnership (PPP) arrangements. The assessment will be according to the PPP Act.

vi. There shall be no provision of guarantees to private individuals since this may raise considerable risks relating to accountability, transparency, and prudent use of public resources.

vii. The sector line Ministry shall be involved in the formulation and monitoring of projects for which funds are acquired.

6.4 Principles for Management of Non-Guaranteed Debt

All public institutions that intend to borrow should seek permission from the Minister of Finance, Planning and Economic Development before acquiring any loan as required by law. Permission will be through issuance of a letter of support (LOS)/letter of comfort (LOC) for an entity that must have existed for at least 5 years.

i. The beneficiary institutions shall be public or publicly aided and, therefore, GoU should be a full or part controller of the institution (majority or minority shareholder).

ii. Consideration for any borrowing as per the PFM Act 2015 shall be only to institutions that have the capacity to service their debt. Credit risk analysis will be performed as per the credit risk benchmarks provided in this framework.

iii. The proceeds of the underlying loan shall be earmarked to fund development expenditure and not recurrent expenditure.

iv. The sector line Ministry shall be involved in the assessment and monitoring of projects for which funds are acquired.

19 The PDMF legal and institutional framework together with the guidelines for the management of contingent liabilities, outlines the laws, and systematized procedures for the management of contingent liabilities, as well as stakeholders and institutions involved.

6.5 Risk Identification

This involves finding, recognizing, and describing risks arising from contingent liabilities that may prevent the Government from meeting its fiscal objectives. It defines sources of risks, exposure, and triggers for materialization.

Table 6: Major sources of risks from contingent liabilities, their exposure, and triggers.

Types	Source	Exposure	Trigger
Explicit	Loan guarantees	Government's gross exposure will be equal to the disbursed and outstanding amount of the loan. However, annual risk to Government i.e., exposure at default each year would be equal to the amount of debt service meant for that specific year (principal and interest)	When the guarantee beneficiary outrightly defaults or is in distress and is unable to meet its debt service obligations and would require government intervention to service its debt
	Guarantee-like commitments from PPPs	For guarantee - like commitments except for credit guarantees, the exposure will be equal to the extent of deviation from contractually specified levels	Deviations of guaranteed variable from contractually specified levels
	Legal claims against government (court cases)	The maximum amount claimed by the plaintiffs (aggregate of several cases)	The Government losing a case against the plaintiff
	Backstop funding for Deposit Insurance Scheme	The value of the backstop guarantee to the Deposit insurance fund	Bank failure/ systemic crisis
Implicit	Non-Guaranteed Liabilities of State-Owned Enterprises (SOEs) and Local Governments	Total liabilities of SOEs and Local governments	Default on loans or debt securities
	Financial sector bailout	The sum of expected and unexpected losses from the banking sector	Bank failures/ systemic crisis
	Natural disasters	Costs of recovery expenses and relief efforts	Events of natural disasters and epidemics

Source: MoFPED

6.6 Risk Analysis and Quantification

When analyzing risks, factors such as uncertainties, risk sources, consequences, likelihood, events, scenarios, controls, and their efficacy are all carefully considered. The purpose of risk analysis is to comprehend the nature of risk and its characteristics including, where appropriate, the level of risk.

6.7 Risk assessment of Guarantees and Unguaranteed debt liability

Assessing the credit quality of entities benefiting from credit guarantees and or requiring approval to borrow is a core part of a risk management framework. Only institutions that have the capacity and willingness to service their debt shall be considered for a credit facility. The MoFPED will employ a credit rating methodology to analyze a beneficiary's financial situation, debt service capacity and willingness, and creditworthiness[20].

Table 7: Thresholds to determine eligibility for guarantees and approval.

	Thresholds	Weight
Business Profile		
Regulatory Environment	Rating below 5	10%
Sector risks and competitive position	Rating below 5	10%
Governance and Management	Rating below 5	10%
Profitability		
1. Operating profit margin	>25%	5%
2. Net profit margin	>10%	10%
3. Revenue growth	>10%	5%
Debt capacity		
4. Debt to assets ratio	<=29%	10%
5. Debt to equity ratio	<=1.1x	5%
6. Interest cover ratio	>=15x	10%
Efficiency		
7. Cost to income ratio	<=50%	10%
8. Cash flow adequacy	>=19%	5%
Liquidity		
9. Cash ratio	>=0.7x	4%
10. Quick ratio	>=1x	3%
11. Current ratio	>=2.0x	3%

Source: MoFPED

20 *Credit rating methodology is detailed in the guidelines for the management of contingent liabilities and will consider the thresholds to determine eligibility for guarantees and approval to borrow.*

The outcome of this analysis and quantification will be an ordinal risk rating arising from the total weighted rating of individual indicators and will be aligned with Moody's rating scale. Any entity with an overall internal risk rating above 5 (Ba), or with any individual risk indicator rated above 7, is considered ineligible.

6.7 Risk Assessment of PPPs

The various direct and contingent liabilities need to be separated by whether they have any linkage to any risk factors or not. For those that do not, like upfront and availability payments, the liabilities are simple to compute, and their payment and timing are certain and known. For those that have risk factors, a scenario analysis and/or a stochastic analysis may be conducted by the contracting authority with the support of the Transaction Advisor.

To help governments better assess and understand risks from PPPs, the World Bank and the IMF have developed the PPP fiscal risk assessment model (PFRAM), which can be used for risk analysis in a PPP environment.

Risk Quantification

The outputs from risk assessment can be translated into quantified risk. Some of the ways risk from guarantees will be quantified include maximum loss, risk rating, the probability of distress, and expected loss.

Maximum loss

Maximum loss is the worst loss the government may sustain from a guarantee or any risk exposure. For example, in a loan guarantee, the maximum loss may be the face value of the loan. If the government guarantees both principal and interest payments, interest payments need to be included in the maximum loss.

Risk rating

The output of credit rating is ordinal risk ratings. As such, risk ratings rank entities in a sample according to their creditworthiness. The rating framework used provided in the Guidelines for the management of Contingent Liabilities and are adopted from Moody's risk rating table[21].

Probabilities of default/ Distress

The probability of default (PD) describes the likelihood of a default over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its debt obligations. This framework will use Moody's probabilities of default.

Expected loss

The expected loss is the credit loss a government would expect from a portfolio of guarantees, or an individual guarantee on average over time.

The expected loss is estimated by multiplying three variables exposure at distress (EAD), probability of distress (PD), and loss-given distress (LGD).

Mitigation

Guarantee Limits

To ensure that Uganda's total public debt exposure remains sustainable, government shall ensure that the benchmarks below are observed before approving a new loan guarantee arrangement. If one of these benchmarks is exceeded, owing to unforeseen circumstances, the Minister of Finance shall report the rationale and the need for an exemption to Cabinet and Parliament.

Table 8: Limiting thresholds for guarantees.

Ratio	Thresholds
Percentage of nominal publicly guaranteed disbursed and outstanding debt to GDP	5%
Percentage of the nominal amount of new publicly guaranteed debt to GDP in any fiscal year	0.5%

Source: MoFPED

21 The highest possible credit quality is termed as a country ceiling and often relates to the credit quality of the sovereign. For example, if a government were rated Baa and the government rating constitutes the country ceiling, an entity rated Aa on a local rating scale (i.e. one grade below government) would be equivalent in terms of credit quality to an entity rated Ba on a global rating scale (i.e. one grade below Baa).

Guarantee fees

GoU shall charge a guarantee fee of 0.3% per year of the guarantee duration on the beneficiary. This shall be charged on the total nominal value of the guaranteed facility. The cumulative fee for any guarantee is capped at 2% of the nominal value. The GoU monitors the financial position and credit rating of the beneficiary regularly and reviews the debt service performance on the underlying credit facility.

In case the beneficiary's financing position is inadequate or deteriorating, the risk rating increases, or the debt service performance is unsatisfactory, the GoU can decide to charge an ad-hoc additional fee of up to 0.7% per year, which is not bound by the 2% cap.

Reporting

Various reports shall be consistently produced to highlight Government's exposure to contingent liabilities, including the performance of loan guarantees, exposure to unguaranteed debt liabilities of public and publicly aided entities[22].

This report will feed into the Contingent Liabilities Report,' and 'Debt Statistical Bulletins. The information will also be input for the 'Report on Public Debt, Guarantees and other Financial Liabilities,' 'Report on Treasury Operations' (TOP) and the 'Fiscal Risk Statement' (FRS), which shall be tabled before Parliament and subsequently circulated to different MDAs.

22 The risks related to PPP projects will be produced by the office responsible for Debt on a semi-annual basis.

CHAPTER
07

RISK MANAGEMENT STRUCTURE

CHAPTER SEVEN: RISK MANAGEMENT STRUCTURE

7.1 Background

The Medium-Term Debt Management strategy is the primary framework for managing risks in the government's public debt portfolio. The goal of this risk management section is to minimize the risks and costs associated with the public debt portfolio and overall debt management.

Additionally, this chapter outlines the various risks present in the public debt portfolio and establishes measures, principles, and benchmarks that will steer the government's decision-making on debt risk management throughout the specified timeframe of this framework.

7.2 Public debt portfolio and overall debt management risks

As of June 2023, the public debt portfolio risks were as follows:

i) **Rollover/ refinancing risk**

Rollover risk pertains to the uncertainty surrounding the possibility that debt might need to be refinanced at a significantly elevated interest rate or, in some cases, may not be refinanced at all. Key indicators used to gauge rollover risk encompass average time to maturity (ATM) and the redemption profile.

By the end of June 2023, the average time to maturity (ATM) had decreased to 8.9 years, down from 9.4 years in June 2022. This decline was attributed to a reduction in the ATM of external debt, which resulted from the acquisition of new debt with shorter maturities.

ii) **Interest rate risk**

The interest rate risk pertains to the Government's expenses in servicing its floating debt, whether new or existing, which can be influenced by potential fluctuations in both domestic and foreign interest rates.

To evaluate interest rate risk, analysts commonly consider several indicators: average time to re-fixing (ATR), debt re-fixing in 1 year (percentage of total), and fixed rate debt (percentage of total). The ATR represents the average time it takes for principal payments to be subject to a new interest rate. A shorter ATR indicates that the debt portfolio, on average, faces new interest rates more frequently, making it more exposed to re-fixing shocks[23].

iii) **Foreign exchange rate risk**

The foreign currency risk is the risk of an increase in debt and debt service due to a depreciation of local currency. This risk is measured primarily using two metrics: The percentage of foreign currency denominated debt to total debt and the share of short-term foreign currency to foreign reserves.

iv) **Contingent risks**

Guarantees and other contingent liabilities represent potential financial claims against the Government that have not yet materialized, but that could trigger a financial obligation or liability under certain circumstances[24].

v) **Operational risk**

Operational Risk encompasses a wide spectrum of risks, including - but not limited to - transaction errors occurring during various stages of executing and recording transactions, such as debt recording, disbursement, and debt service. It also involves the possibility of inadequacies or breakdowns in internal controls, systems, and services. The DMO should have a backup of debt management system.

vi) **Compliance and legal risk**

Failure to comply with relevant laws, regulations, and contractual obligations poses operational risks in public debt management. This includes risks related to non-compliance with reporting requirements, violations of legal and regulatory frameworks, or contractual disputes with counterparties.

23 As at the end of June 2023, Uganda's public debt portfolio was dominated by fixed interest rate debt at 65.16% (USD 8.98 Billion). Variable rate debt and no interest rate constituted 23.45% (USD 3.23 billion) and 11.39% (USD 1.57 billion) respectively.

24 Government had accumulated Twelve (12) guarantees amounting to USD 120.077 million as of June 2023.

7.3 General Principles of Risk Management

This framework shall incorporate guidelines to mitigate the expenses and risks associated with the public debt portfolio as follows:

i. The government shall primarily rely on the Medium-Term Debt Management Strategy (MTDS) as its principal risk management plan for debt contracting. It will also utilize other instruments, including but not limited to, financial derivatives, to complement the MTDS.

ii. To minimize the foreign exchange risk, the office responsible for debt shall periodically assess the country's debt profile and advise on the need for a financial derivative i.e., the transaction shall be demand, rather than supply driven.

iii. The government shall undertake interest rate risk management, through hedging in an environment of rapidly rising interest rates backed by sound legal documentation, which shall indicate, but not be limited to the purpose(s) for the derivative transaction.

iv. Government shall continue to prioritize the acquisition of external debt on competitive fixed interest rates during the lifetime of this framework.

v. The risk of changes in foreign exchange rates will be identified and tracked, specifically by examining the ratio of foreign currency debt to overall debt. Government has to keep this ratio from exceeding 70% throughout the duration of this plan, and to limit exposure to foreign exchange rate fluctuations.

7.4 Risk Mitigation Measures

Table 9: Summary of risks and proposed mitigation measures

Risk	Liability Management Operation
Refinancing risk/rollover risk	-Smooth maturity profile by well-planned primary market
	-Regular use of buybacks and exchanges to reduce size of short- term debt
Funding liquidity risk and market Liquidity risk	**Funding liquidity risks:**
	-Use of cash buffers and contingency credit lines.
	Market liquidity risk:
	-Issuance in key maturity segments; concentrate on small number of instrument types.
	-Use of buybacks and bond exchanges to contribute totrading in on-the-run issuance.

Risk	Liability Management Operation
Interest rate risk	Draw clear targets for issuance of fixed/floating rateinstruments in primary market issuance
	- Interest rate derivatives (hedging, swaps, forwards, futuresetc.) to change interest rate structure and duration
	- Changes in portfolio composition to manage interest ratesensitivity
Exchange rate risk	-Limits for overall foreign exchange risk and benchmarks
	-Use of bond exchanges to achieve a targeted mix of local and foreign currency liabilities[25]
	-Use of cross-currency swaps or optionality in loan agreements.
	-Use of foreign exchange derivatives to hedge other foreign currencies
Counterparty risk for derivative. Transactions & assets on the balance sheet	-Counterparty credit risk limits. -Monitoring of counterparty creditworthiness and adequate posting of collateral
Legal risk	-Use of standard legal agreements

Source: MoFPED

25 *By diversifying the currency composition of debt, GoU can mitigate the impact of adverse exchange rate movements on its overall financial position.*

Table 10: Risk management target ranges

Cost and Risk Indicators		Jun-18	June 2023 Current	As at end 2028 Target ranges
Cost of Debt	External interest payments as a % of GDP	0.5%	0.73%	0.6-0.80%
	Domestic interest payments as a % of GDP	1.8%	2.69%	1.7-1.8%
	Total interest payments as a % of GDP	2.3%	3.4%	2.5%
Refinancing Risk	External debt maturing in 1yr. (% of Total)	2.9%	4.9%	3.0-4.0%
	Domestic Debt maturing in 1yr. (% of Total)	36.2%	23.2%	28.0-32.0
	Debt maturing in 1yr (% of Total)	13.6%	12.3%	7.5-12.0
	ATM External portfolio (Years)	15%	10.3%	15.0-16.0
	ATM Domestic Portfolio (Years)	3.8%	6.8%	5.0-6.0
	ATM Total	11.4%	8.9%	12.2-12.3
Interest Rate Risk	External debt re-fixing in one year as a (% of Total)	8.9%	26.3%	10.2-11.2
	Domestic debt re-fixing in one year as a (% of Total)	36.2%	23.2%	22.7-26.8
	Debt re-fixing in one year as a (% of Total)	17.6%	12.3%	20.8
	Floating rate debt as a % of Total	4.2%		6.8
	Fixed rate debt as a % of Total	95.8%	76.6%	93.2
FX Risk	FX Debt as a % of Total	67.9%	59.4%	80.0
	ST FX debt as a % of reserves	6.5%	16.4%	8.0% – 10.0%

Source: MoFPED

CHAPTER

08

CURRENT INSTITUTIONAL & REPORTING FRAMEWORK FOR PUBLIC DEBT MANAGEMENT

CHAPTER EIGHT: CURRENT INSTITUTIONAL & REPORTING FRAMEWORK FOR PUBLIC DEBT MANAGEMENT

8.1 Institutional Framework

The institutional and reporting framework for public debt management plays a pivotal role in ensuring the effective oversight and strategic handling of debt throughout its lifecycle. This comprehensive organizational structure encompasses all responsible entities involved in the debt management process, from its initial origination to subsequent stages of approval, acquisition, and ongoing management.

It serves as the backbone of a well-coordinated approach, offering transparency and accountability in navigating the complexities of public debt. In this chapter, we delve into the intricacies of this institutional framework, examining the roles, responsibilities, and interactions of the various components that collectively contribute to the prudent management of public debt. Additionally, we explore the mechanisms in place for reporting and monitoring, shedding light on the essential features that underpin a robust and responsive debt management system. These are as follows:

i. **The Ministry of Finance, Planning and Economic Development (MoFPED)**

The Ministry is responsible for key tasks such as determining budget financing requirements, ensuring prudent public debt portfolio management, and maintaining debt sustainability. This involves formulating the MTDS that guides the government in balancing cost and risk for a manageable portfolio[26].

For authorization and compliance, the Ministry submits borrowing requirements to the cabinet and parliament. The Ministry leads in identifying, evaluating, negotiating, and signing debt agreements. The Accountant General's Office utilizes the DMFAS to record and report both domestic and external public debt.

ii. **The Bank of Uganda**

As per the Bank of Uganda Act of 1993, the Central Bank offers guidance on debt management. Within the process of acquiring debt, the Bank of Uganda is given the authority to decide the specific type of domestic debt to be issued, the allocation of assets, the issuance calendar, and the volume of debt to be issued in a particular year. The Bank of Uganda is also responsible for maintaining an updated database (using systems such as DMFAS and Central Securities Depository (CSD) that records the country's indebtedness[27].

iii. **The Cabinet**

As a component of the executive branch, the Cabinet conducts assessments of individual loans to ensure their alignment with the public debt policy, the National Development Plan (NDP), the manifesto of the ruling party, and the government's key priorities. The objective of these reviews is to enhance service delivery, promote economic growth, and contribute to the overall development of the country.

iv. **The Parliament**

The Parliament is responsible for approving new loans that the Government intends to acquire and approving the amount to be borrowed domestically each year, as provided for in Article 159 (2) of the Constitution of Uganda 2005 (as amended).

26 MoFPED conducts a yearly debt sustainability analysis (DSA) to assess the impact of existing and potential new borrowings on Uganda's ability to service debt and establish sustainability. Additionally, the Ministry provides overarching guidance on debt policy.

27 BoU also evaluates the impact of Uganda's current debt level and potential new borrowings on the country's ability to meet its debt obligations.

v. **Other Ministries, Departments and Spending Agencies (MDAs)**

Ministries, Departments and Agencies (MDAs), through their sector working groups identify projects to be funded and prepare project proposals, which are submitted for consideration by MoFPED. The MDAs also participate in all consultations and negotiations of all loan agreements for projects and programs under their jurisdiction,in line with the National Development Plan.

vi. **The Ministry of Justice and Constitutional Affairs**

This Ministry performs its functions through two offices as follows:

a. **Solicitor General**

The Solicitor General provides legal support and advice throughout the loan acquisition process, including comments on the legality of a project. He or she also provides support during cabinet and parliamentary approval to provide clarification on any matters. The Solicitor General also forms part of the loan negotiations team.

b. **Attorney General**

The Attorney General gives a legal opinion on the loan agreements after parliamentary approval and signing of the agreement. The legal opinion is a no objection on behalf of GoU to the terms of the signed agreement and it is against thisopinion that the loan becomes effective.

Table 11 summarizes the different responsibility centres and their roles and duties in the execution of Uganda's debt policy, performance evaluation, contracting new project financing, recording, reporting, and repayment of the loan portfolio.

Table 11: Responsible centres in the process of debt approval, acquisition and management

Assigned responsibility/ activity	Stakeholder
Identify overall financing needs	MoFPED
Undertake Debt Sustainability Analysis (DSA)	MoFPED & BOU
Advise Government on overall public debt policy	MoFPED
Identify priority projects/ Submit project proposals to DevelopmentCommittee (DC)	NPA/SWGs
Scrutinize and approve new projects	MoFPED (DC)
Identify development partners and negotiate financing details[28]	MoFPED
Analyze terms of proposed new borrowing	MoFPED
Present Cabinet Memorandum to Cabinet, followed by Cabinet Brief to Parliament, for each new loan	Hon. of MoFPED

28 *In some cases, projects submitted to the DC already have donors attached, as planned by SWGs. A few projects are donor driven.*

Assigned responsibility/ activity	Stakeholder
Agree on loans to be submitted to Parliament	Cabinet
Brief to Parliament seeking approval	MoFPED
Approve new loans	Parliament
Provide opinion on the legality of each loan agreement	MoJCA
Inventory of loan agreements	MoFPED
Effect debt service repayments	MoFPED
Maintain and update parallel loan ledgers	MoFPED/BoU
Record and monitor Government external loan disbursements on a loan-by-loan basis, including borrowing and repayment terms, and external grant disbursements	MoFPED
Review and approve withdrawal applications by issuing audit warrants	MoFPED
Service Government debt payments	MoFPED
Monitor project execution	MoFPED
Manage Government's overseas project bank accounts	MoFPED
Examine and issue audit certificates on project expenditures	Accountant General Office

Source: MoFPED

8.2 Reporting of Public Debt and Other Financial Liabilities

In accordance with the PDMF2023, debt reporting and assessment will adhere to the stipulated requirements in relevant GoU legislation and international best practices governing public debt management. The following publications will serve as integral components of the evaluation, management, and reporting frameworks for public debt:

i. Report on public debt, guarantees and other financial Liabilities of government

This comprehensive report will encompass an overview of the Government's loans, grants, guarantees, and other financial liabilities. It will evaluate the Government's borrowing activities, ensuring compliance with the objectives, principles, and guidelines outlined in the framework. MFPED will produce, publish, and submit this report to Parliament annually.

ii. The Medium-Term Debt Management Strategy

A five-year financial plan and strategy seeks to effectively manage government debt. It involves a thorough evaluation of the current debt portfolio, an assessment of the previous year's financial performance, and outlines the financing approach for the upcoming year. The strategy aims to strike a balance between meeting financing needs and minimizing risks associated with excessive borrowing.

iii. The Debt Sustainability Analysis Report

The DSA report will provide an overview of the current state of public debt in Uganda, including its historical trends, major drivers and potential risks and challenges. In addition, the report provides projections for the evolution of key public debt metrics in the medium term, based on the country's long-term fiscal framework. MFPED shall produce and publish the report annually.

iv. Debt Statistical Bulletins

These reports will offer insights into the public debt portfolio, incorporating cost and risk analyses of the existing debt.

v. Public Debt Portfolio Analytical Reports

This report will provide an analysis on public debt portfolio, cost, and risk of the existing debt. It will be produced quarterly alongside the Debt Statistical Bulletins.

vi. Report on Contingent Liabilities

During the life of this framework, MFPED shall, on a quarterly and annual basis, identify, register, and disclose both implicit and explicit contingent liabilities. From this, an annual report shall be written and published[29].

29 The CL report shall, among others, quantify the expected cost and maximum probable loss and ascertain the probability of default. This will act as an early warning system of any future budgetary pressures.

ANNEX 01

GLOSSARY

ANNEX 1: GLOSSARY

i) **Average Time to Maturity (ATM):** Provides an indicator for the average life of debt. It measures the average length of time it takes for debt instruments to mature and, therefore, the extent of the refinancing risk exposure. A long ATM implies lower refinancing risk exposure, and vice versa.

ii) **Average Time to Refix (ATR):** ATR provides a measure for the average length of time it takes for interest rates to be reset. The longer the period, the lower the interest rate exposure.

iii) **Contingent liability:** This is an obligation that arises from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not within the control of an entity.

iv) **Debt assumption commitments:** this applies where the Government assumes the debt of the private project company.

v) **Direct credit guarantees extended to the project companies**: the Government may agree to fulfill the obligations of the guaranteed entity if it fails to repay a loan.

vi) **Domestic debt stock / GDP:** This is a commonly used measure of the level of domestic debt relative to the size of the economy.

vii) **Domestic debt stock / Private Sector Credit (PSC):** This ratio helps monitor the extent to which government borrowing may be crowding out the provision of credit to the private sector.

viii) **Domestic Interest Cost / Domestic Revenue (excluding grants):** This ratio captures the budget sustainability of the domestic debt. The benchmark captures higher risk of accumulation of domestic debt in Uganda due to the low level of Domestic revenue to GDP.

ix) **Domestic Interest Cost / Total Government expenditure:** This ratio describes the share of total government expenditure that is directed to pay domestic interest costs. This therefore provides an indication of the extent to which available resources are used to meet finance costs at the expense of growth-enhancing activities. The higher the ratio, the higher will be the risk of holding back economic growth.

x) **Early Termination payment commitments (including Force Majeure Termination)**: if the PPP Agreement is terminated before the end of the concession, the Government may be required to pay an Early Termination Payment (depending on the underlying cause of the termination). The PPP Agreement will set out the costs to be included in the calculation of the compensation payment to be made by the Government.

xi) **Explicit Contingent Liabilities:** These are specific government obligations defined by a contract or a law. These include publicly guaranteed debt (loan guarantees), legal proceedings, etc.

xii) **Implicit Contingent Liabilities:** These are not bound by any law or contract but are political or moral obligations and sometimes arise from expectations that the government would intervene in the event of a crisis or a disaster. These include non- guaranteed public debt (debt of SoEs, local governments, amongst others).

xiii) **Minimum revenue guarantees**: this type of guarantee ensures a minimum level of income for the private party, and the government must cover the difference if the income of the PPP is below the amount agreed in the PPP Agreement.

xiv) **Percent maturing in any year after year one:** To avoid refinancing requirements being particularly concentrated in any single year, it is recommended to spread maturities evenly over the maturity curve. This risk control measure helps prevent rollover risk from being simply shifted to a later period, for example from year one to year two.

xv) **Percent Maturing in One Year:** This is the share of debt maturing in the next twelve months. High proportions are indicative of high levels of interest rate or rollover risk. The risk is more pronounced in less liquid markets.

xvi) **On-lending arrangement:** Where the Government of Uganda, represented by the Ministers of Finance, Planning and Economic Development, obtains a loan (usually concessional financing from an International Financial Institution (IFI) and then passes on the loan principal to another entity (usually a State-Owned Enterprise (SOE), known as the Beneficiary.

xvii) **Debt for Nature Swaps:** These are financial and conservation mechanism that allows a country to reduce its external debt burden, while also promoting environmental conservation and sustainability. These swaps typically involve three key stakeholders: the debtor country, creditor governments or institutions, and environmental organizations or NGOs.

They entail renegotiation of external debt terms where a portion of the debt is cancelled on condition that the debtor commits to invest the cancelled debt proportion in climate and environmental sustainability investments.

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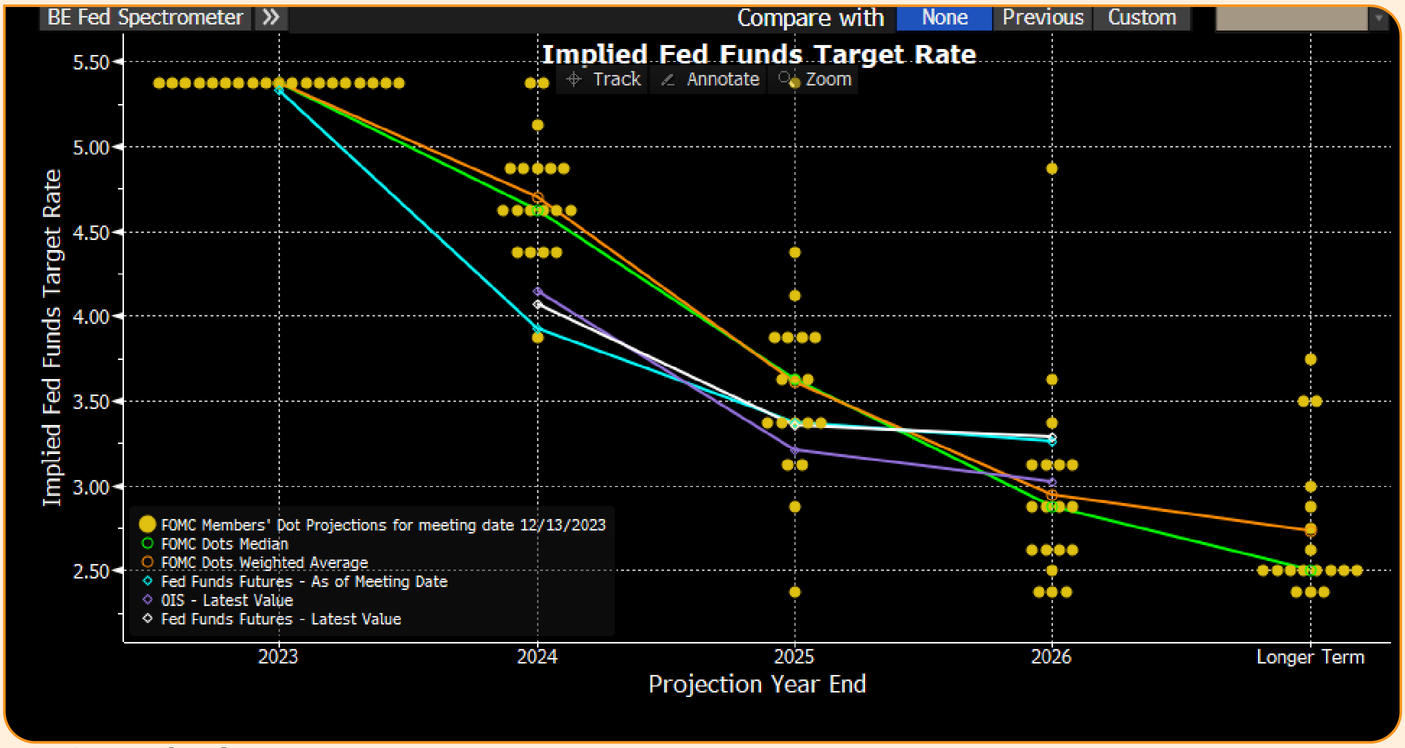
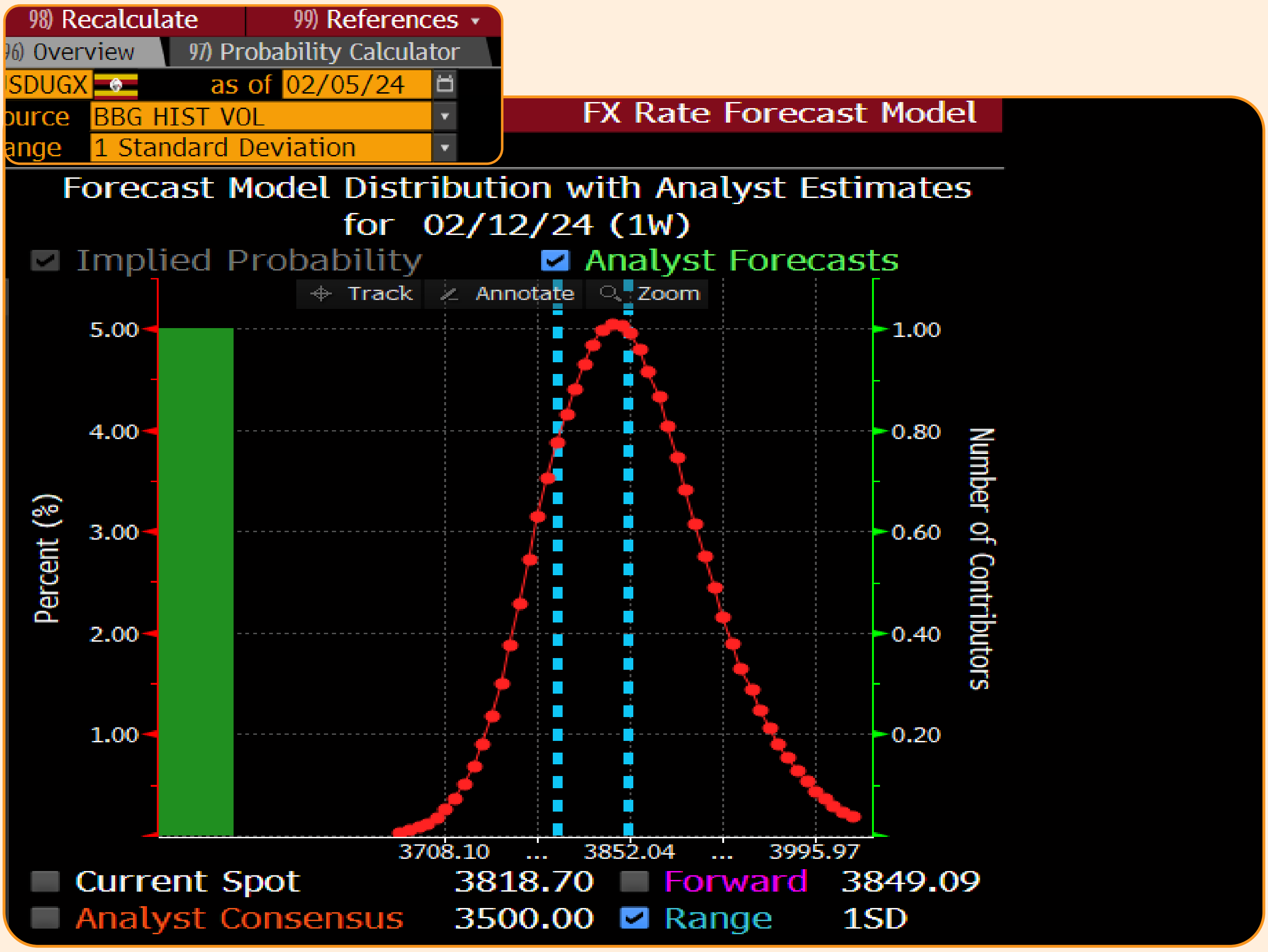
Federal Open Market Committee (FOMC) Dot plot for the medium term



Source: Bloomberg

Uganda shillings/US Dollar forecast



Source: Bloomberg

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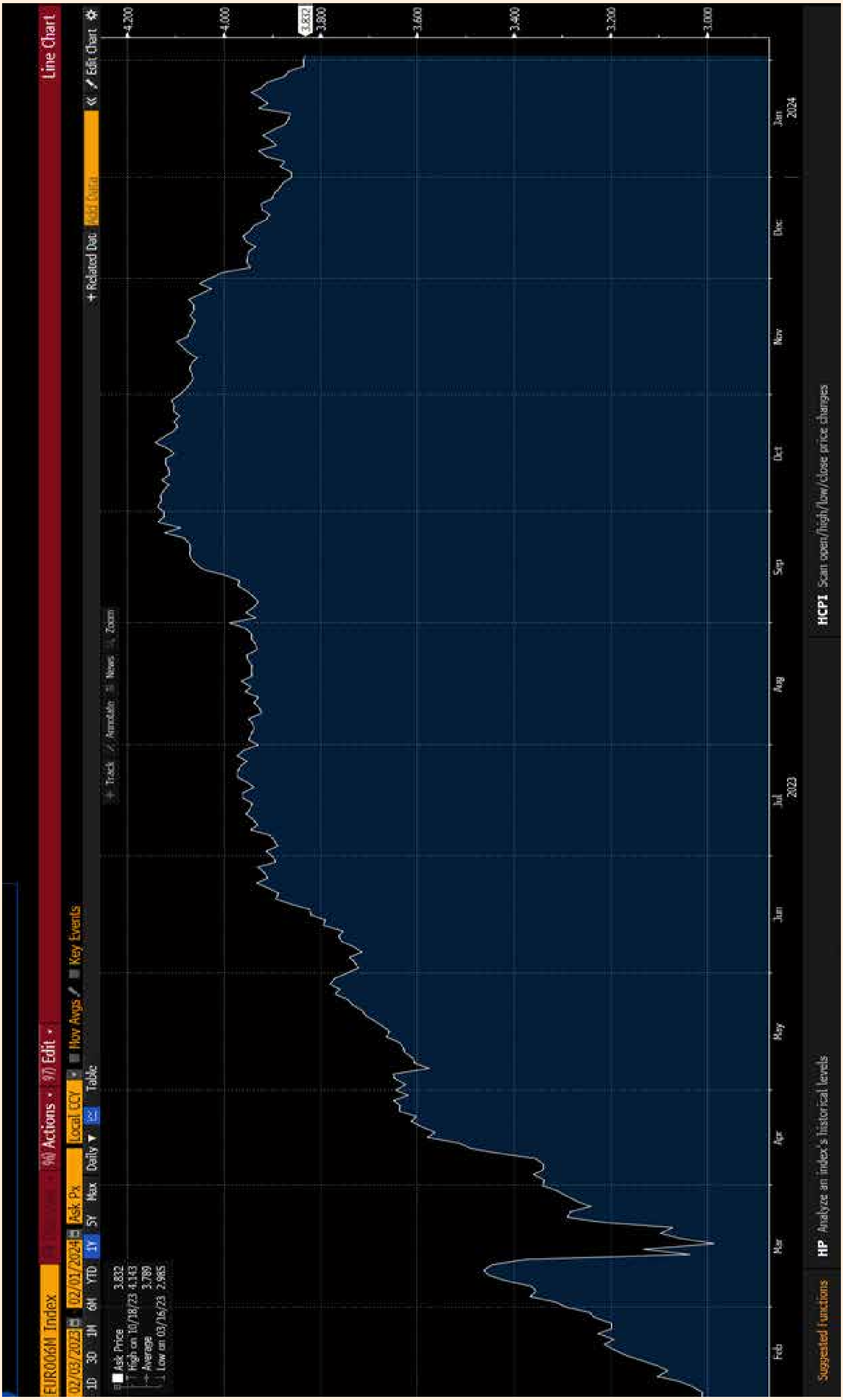
EURIBOR 6 - MONTHS LINE CHART



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