



CONTINGENT LIABILITIES ANNUAL FIELDWORK REPORT FY 2019/2020

**Directorate of Debt and Cash Policy
MINISTRY OF FINANCE PLANNING AND ECONOMIC DEVELOPMENT
www.finance.go.ug**

March 2021



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Acronyms

BoU	: Bank of Uganda
DFCU	: Development Finance Company of Uganda Bank
EBU	: Extra-Budgetary Units
GoU	: Government of Uganda
IAS	: International Accounting Standard
IUIU	: Islamic University in Uganda
KFAED	: Kuwait Fund for Arab Economic Development
LG	: Local Governments
MoFPED	: Ministry of Finance, Planning and Economic Development
OPEC	: Organisation of the Petroleum Exporting Countries
PPP	: Public Private Partnership
SOE	: State-Owned Enterprise
UDBL	: Uganda Development Bank Limited
UEGCL	: Uganda Electricity Generation Company Limited
UETCL	: Uganda Electricity Transmission Company Limited
UGX	: Ugandan Shillings
USD	: United States Dollar

Foreword

The preparation and production of this report is in fulfillment of the Public Finance Management Act (PFMA 2015), as amended. Article 42(2) of the PFMA 2015 requires the Minister of Finance, by 1st April, to prepare and submit to Parliament a detailed report of the preceding financial year, on the management of the public debt, guarantees and the other financial liabilities of Government. In addition, Article 13, section 9(c) requires that on tabling the budget, there is 'supply of detailed information on recent fiscal developments and forecasts for the period determined by the Minister..' including contingent liabilities. This mandate is based on the need to streamline the government's internal mechanism for mitigation of fiscal risk, monitoring and reporting on its operations.

Contingent liabilities are a major source of fiscal risk for sovereigns which makes monitoring and managing them very important in averting any potential financial losses or unplanned expenditure by the Government. Within this decade, several countries have faced fiscal crises arising from the realization of contingent liabilities. This FY2019/20 Contingent Liabilities report is important in predicting financial exposure and liabilities that government may be faced with so as to avert fiscal risks which is a good practice in public financial management.

In Uganda specifically, loan guarantees constitute the main explicit contingent liability for the Government with the other major sources of fiscal risk being debt of State Owned Enterprises (SOEs) and legal proceedings. Debt of SOEs mainly comprises of on-lent loans which do not constitute contingent liabilities. However, they constitute contingent assets whose non-performance may impair Government assets and finances. Therefore, these have to be consistently monitored and reported on. Other contingent liabilities arising from Public Private Partnerships are also considered as well as other implicit contingent liabilities which include risks from the financial sector and legal proceedings.

In the preparation of this report, FY2019/20 audited financial statements were obtained from the above mentioned entities. Data was also got from the Ministry of Justice and Constitutional Affairs on legal proceedings. This information was cleaned, analyzed and based on which, the FY2019/20 contingent Liabilities report was written.

We conducted several reviews, among which regarding; GoU Agreements with the respective SOEs to include fiscal risks associated with loan guarantees; verified with Accountant General's office, information obtained from the MoJCA on court awards; included financial exposure to GoU on on-lent loans, and also reconciled our findings with the content of the GoU consolidated financial statements as published by the office of the auditor general.

I salute all the SOEs, Local Governments, guaranteed entities to mention but a few, for the cooperation that they exhibited during our data collection exercise. I extend thanks to the management of this Ministry for the financial and technical support to us without which, we wouldn't have achieved this report.

Hope you find this report useful.


Maris Wanyera
Ag. Director, Directorate of Debt and Cash Policy (MoFPED)

Executive Summary

The Directorate of Debt and Cash Policy (DDCP) under the Ministry of Finance, Planning and Economic Development compiles an annual contingent Liabilities report. This FY2019/20 is one such report which, highlights the different contingent liabilities faced by Government. This description contains the status of sovereign guarantees, debt of State Owned Enterprises (SOEs) and Extra Budgetary Units (EBUs), contingent liabilities from Public Private Partnerships (PPPs), exposure from legal proceeding and risks from the entire financial sector.

The report highlights explicit contingent liabilities, as at end of December 2020 which include 7 active guarantees amounting to a total stock of USD 65 million, with the disbursed and outstanding stock of USD 28.4 million. The annual exposure of government (the amount Government would pay within the year in case of default in debt service of principal and/or interest within the year) was at USD 0.135 million, which was 0.004% of GDP, indicating an insignificant low financial exposure to government in case of default by all entities. As at end March 2020, there were five guarantees totaling a sum of USD 85.8 million awaiting parliamentary approval. In addition, there were 8 Public-Private Partnership Projects under the PPP Act of 2015, all of which were in their preliminary stages and thus, posing no financial risk to the Government of Uganda.

Regarding implicit contingent liabilities, the total stock of debt for SOEs rose by 11.4 % from June 2019 to UGX 10,069 billion in June 2020. This was attributed to the significant increase in domestic borrowings due to the Covid-19 pandemic, as well as a large increase in the number of entities analyzed. The stock of on-lent loans to these entities increased by 8 % with a financial exposure of UGX 336 billion (0.9% GDP), indicating low financial risk to government as well. Among the management of non-guaranteed debt, it was noted that Local Government (LG) debt poses the lowest fiscal risk compared to guarantees, SOEs and EBUs. Total liabilities stood at UGX 136,880 million, indicating a 53% increase compared to the FY2018/19 position. This was on account of an increase in capital grants and a 36% increase in current liabilities.

The contingent liabilities arising from legal proceedings stood at 10,407.15 billion as at end June 2020, indicating a 10% increase from end June 2019. This is because of the rise in the number of court cases during the period under review.

For any comments, please send them through email to DPI@finance.go.ug, Ministry of Finance, Planning and Economic Development.

Enjoy your reading.

1. Introduction

1.1 Background

A contingent liability for the central government is a possible financial obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the government (International Accounting Standard [IAS] 37). If the event happens, the contingent liability will result in expenditure by the government to settle the confirmed obligation. These therefore pose a fiscal risk to the central government.

In line with the Public Finance Management Act (2015), the Ministry of Finance, Planning and Economic Development (MoFPED) is mandated to manage, monitor and report on contingent liabilities and their risks to fiscal sustainability. Through regular monitoring and reporting on loan guarantees and contingent liabilities, the Government understands the changing risks and conditions associated with its financial liabilities. This information also influences decisions on risk mitigation measures on current guarantees and on the approval of future guarantees.

The Debt policy and Issuance Department is responsible for the management, monitoring and reporting of government of Uganda (GOU) contingent liabilities. Throughout the year, several initiatives and activities were conducted in line with this mandate. This report forms one of those accomplished tasks and is published on an annual basis. It feeds into the Ministry's report on Public debt, Guarantees, other Financial Liabilities; one of the documents that are a prerequisite to laying of the National Budget to Parliament.

1.2 Guidelines for the management, monitoring and reporting on Contingent Liabilities.

These guidelines, which form part of the broader Public Debt Management Framework FY2018/19–2022/23 of GoU aim to provide public officials of the Ministry of Finance, Planning and Economic Development with a systemized procedure and a set of standardized criteria for the approval, monitoring and reporting of loan guarantees and unguaranteed debt liabilities. The same guidelines provide the basis for management of contingent liabilities from PPP arrangements and legal action (court cases). These procedures were completed and approved in FY 2019/2020 and full approved by the Management of the Ministry of Finance, Planning and Economic Development

These guidelines provide a framework that the Government of Ugandan will apply in assessing the acceptability, monitoring and reporting of Government 's contingent liabilities. The main focus of the guidelines is on guarantees for credit facilities (loans), authorisations for unguaranteed debt liabilities, contingent liabilities from Public Private Partnerships (PPPs) i.e. FCCL in PPP agreements and contingent liabilities from legal action (court awards).

1.3 Methodology

The Contingent Liabilities section spearheaded and coordinated an annual field work exercise aimed at compiling data on explicit and implicit contingent liabilities of the Government. The field work involved compilation of data on Government guarantees, Debt of state-owned enterprises, extra budgetary units and local governments, contingent liabilities from legal proceedings, Guarantees and commitments in Public Private Partnership agreements and Exposure to financial sector (implicit contingent liabilities from financial institutions). The exercise covered 71 local governments and 85 State Owned Enterprises (SOEs). Results of this field work are a basis for the preparation and production of this financial year 2019/2020 contingent liabilities report.

1.4 Report Structure

This report is divided into five parts: Part 1 covers the introduction, Part 2 covers the Government of Uganda's Explicit Contingent Liabilities, Part 3 covers the Government of Uganda's Implicit Contingent Liabilities from State-Owned Enterprises, Extra-Budgetary Units and Local Governments, Part 4 covers Contingent Liabilities arising from Legal Proceedings, Part 5 covers the challenges arising from the fieldwork activity and recommendations and Part 6 provides the relevant annexes to this information.

2. Explicit Contingent Liabilities

Explicit contingent liabilities are possible government obligations defined by a contract, law or policy. The government is legally mandated to settle an obligation in the event a clear policy commitment, law or contract prescribed to do so. The most common explicit contingent liabilities are loan guarantees, government-backed guarantee schemes, legal proceedings and Contingent liabilities arising out of PPPs arrangements.

2.1 Loan Guarantees

As at end of December 2020, there were 7 Active guarantees comprising of the two entities Uganda Development Bank Limited (UDBL) and Islamic University in Uganda (IUIU), which amounted to a total of USD 65 million. Islamic Development Bank (IDB) was the top guaranteed creditor with a guaranteed amount of USD 29.01 million, followed by African Development Bank (AfDB) with a guaranteed amount of USD 15 million, Arab Bank for Economic Development in Africa (BADEA) with USD 6 million and India EXIM Bank with USD 5 million as indicated in Table 1.

The current guarantee portfolio mainly consists of two entities; Islamic University in Uganda (IUIU) and Uganda Development Bank Ltd (UDBL).

- i) Islamic University in Uganda, a private education institution held 11% (USD 3.1 Million) of total disbursed and outstanding stock and;
- ii) Uganda Development Bank, a public financial corporation held 89% (USD 25.3 Million) of the total disbursed and outstanding stock of USD 28.4 Million as at end December 2020.

The current exposure of the Government to the disbursed and outstanding guaranteed debt stood at USD 28.4 million as at December 2020, indicating a 2.4 % decrease from USD 29.1 million as at December 2019. The decrease was mainly due to total repayments of USD 11,510,700 and additional disbursements of USD 10,622,762 under UDBL. Under IUIU the increment of USD 187,081 disbursed and outstanding as at December 2020, was due to additional disbursements and the foreign exchange rate differences during the period under review as the loan is primarily quoted in SDR IDNAR.

As at end December, 2020 the nominal value of the disbursed and outstanding guaranteed debt to GDP stood at 0.1%. The total exposure to the government in case of default resulted in USD 0.135 million, which represents 0.004% of GDP, indicates the value the government is exposed to and has to pay to the lender in case of default thus indicating an insignificant impact on government revenue.

The current portfolio of guaranteed loans also consists of long maturity periods ranging from 7 to 25 years with a weighted average maturity of 8 years, indicating a low annual exposure of Government in case of default as debt service is distributed across a longer maturity.

Guaranteed Debt stock and Government Exposure as at end December 2020

Table 1

Beneficiary	Creditor	Sector	Year signed	Guaranteed Amount (USD)	Tenure	Disbursed & Outstanding (USD)		Government Exposure 2020 (USD)	Performance
						December 2019	December 2020		
Islamic University in Uganda	Islamic Development Bank (IDB)	Education	2004	4,302,676	25	2,127,064	2,223,673	112,182	Draw down complete. Servicing on-schedule
Islamic University in Uganda	Islamic Development Bank (IDB)	Education	2010	983,888	20	688,518	718,990	23,432	Draw down complete. Servicing on-schedule
Islamic University in Uganda	Islamic Development Bank (IDB)	Education	2018	13,790,000		100,000	160,000	-	Delayed disbursements due to Covid 19 that affected the counterpart finding from the university, the long procurement process of the bank. At the moment the creditor is paying only service charge since the Principal payment and interest starts in 2025.
Uganda Development Bank Limited	BADEA (Trade Finance)	Financial	2017	10,000,000		10,000,000	-	-	Fully serviced
Uganda Development Bank Limited	BADEA (Private Sector Development)	Financial	2017	6,000,000	10	6,000,000	4,874,900	-	Draw down complete .Servicing on-schedule
Uganda Development Bank Limited	Islamic Development Bank (IDB)	Financial	2017	10,000,000	8	2,764,357,34	2,378,757,73	-	Servicing on-schedule
Uganda Development Bank Limited	African Development Bank	Financial	2019	15,000,000	10	7,430,095	15,000,000	-	Draw down complete. On-schedule repayment starts in 2021
Uganda Development Bank Limited	Exim India	Financial	2019	5,000,000	7	-	3,052,857	-	Servicing on-schedule
TOTAL				65,076,564		29,110,034	28,409,178	135,614	

Source: MoFPED, Directorate of Debt and Cash Policy

2.2 Called Guarantees

There were no called guarantees during FY2019/2020.

2.3 Pipeline Guarantees

Government of Uganda Pipeline Loan Guarantees as at end March, 2020

As at end of March 2020, there were five guarantees in the pipeline awaiting parliamentary approval, totaling to USD 85.8 million. All five guarantees were credited to one beneficiary, UDBL, mainly to facilitate the import of goods and services in the Trade sector. These guarantees are tabulated below.

Table 2: Status of Pipeline Guarantees

CREDITOR	PROJECT NAME.	Purpose of Funding	CREDITOR	PROPOSED GUAR-ANTEED AMOUNT OF LOAN (USD)	Status
Uganda Development Bank	Line of credit to UDBL	Funds for project Finance especially women led projects and youth	European Investment Bank	16,000,000	Awaiting Parliamentary approval
Uganda Development Bank	Line of credit to UDBL	Funding for Trade Finance projects	International Islamic Trade Finance Corporation	10,000,000	Awaiting Parliamentary approval
Uganda Development Bank	Line of credit to UDBL	Funds for project Finance (SMEs in key growth sectors)	OPEC Fund for International Development	20,000,000	Awaiting Parliamentary approval
Uganda Development Bank	Line of credit to UDBL	USD 10 MN for Trade Finance and USD 10 MN for project finance	The Arab Bank for Economic Development in Africa. (BADEA)	20,000,000	Awaiting Parliamentary approval
Uganda Development Bank	Line of credit to UDBL	Funds for project Finance	Kuwait Fund for Arab Economic Development (KFAED)	19,800,000	Awaiting Parliamentary approval
Total				85,800,000	

Source: MoFPED

2.4 Guarantees related to Public-Private Partnership (PPP) contracts.

As at end November 2020, there were 8 Public-Private Partnerships (PPPs) on-going projects under the PPP Act 2015. All these projects were in their preliminary stages, and the GoU was not exposed to any ascertainable financial exposure resulting from their operation. There were therefore no contingent liabilities arising from the reported PPPs. Nonetheless, Government had entered into other PPP projects before the enactment of the PPP Act 2015; the Bujagali Hydropower Generation project, Eskom Generation Concession, Umeme Power Distribution Concession, Kalangala Infrastructure Services, Kampala Serena Hotel, and Kilembe Copper Mine Concession. These projects continue to be implemented and monitored on the basis of the legal regime under which they were originally undertaken. The following 8 projects are and shall be executed under the PPP Act of 2015.

i. Kampala – Jinja Expressway

The Kampala Jinja Expressway (KJE) is the first project to be registered under the PPP-Unit. The project entails the construction of a tolled expressway between Kampala and Jinja. The PPP used will cover the design, construction, finance, operation and transfer of the facility. The Uganda National Roads Authority (UNRA) will be seeking bids from the private sector for this project. A feasibility study carried out by International Financial Corporation (IFC) was approved by the PPP Committee in December 2017. The project is estimated to cost USD 1.5 billion with the GoU contributing a viability gap funding of approximately USD 400 million, whiel the remaining funding portion shall jointly be provided by the EU, AFD and AfDB. The project was previously on hold pending Cabinet decisions, but has since been granted a conditional way forward to proceed. In light of the above, the project team has resumed review of project status and the implications arising from the Covid-19 pandemic.

ii. Kampala Waste Management

The Kampala Waste Management PPP Project involves the building and operating of a new sanitary landfill and waste treatment facility at Dundu in the Mukono district, and the building and operating of a waste transfer station at Kiteezi in the Wakiso disctrict. The Kampala Capital City Authority (KCCA) will be seeking bids from the private sector for this project. The estimated cost of the project is USD 163 billion and a feasibility study was carried out by the International Finance Corporation (IFC). The Feasibility Study Report is currently under review at the PPP Unit.

iii. ICT Park

The ICT Park PPP entails the construction of a 17-acre ICT Park in Entebbe at an estimated cost of USD 150 million. NITA-U is currently seeking bids towards securing the support infrastructure for the project and this undertaking is currently at the preparation of a feasibility study.

iv. Redevelopment of National Council of Sports Complex – Lugogo

The Project comprises of the redevelopment of the existing sports facilities and construction of new sports facilities, a health club, shopping centres, restaurants, etc. The estimated project cost is USD 19 million. NCS is currently in the process of procuring the services of a transaction advisor to support management in carrying out a detailed feasibility study report and procurement of a private party to implement the project.

v. Re-development of Uganda National Cultural Centre (UNCC) Properties

The project comprises of the redevelopment of UNCC's prime property, located at the National Theatre and Nommo Gallery. The property has to be developed into an ultra-modern cultural centre with three theatres, resource centre, crafts centre, recreation centre, art gallery, office space and a 5-star hotel, estimated to cost USD 174.3 million. The procurement of the transaction advisory services is currently at the bid evaluation stage.

vi. Mulago Car Parking

The Mulago National Referral Car Parking project aims at developing a modern car parking facility for Mulago Hospital at an estimated cost of USD 19.1 million. The project is currently on hold until funding is secured to finance the feasibility study.

vii. Gulu Logistics Hub

The Gulu Logistics Hub entails the construction of a Logistics Hub in Gulu on land belonging to the Uganda Railways Corporation (URC). The project is funded by EU and Trademark East Africa for the procurement of transaction advisory services, and a grant towards the construction phase of the project. The PPP is for the operation and maintenance of the project assets that will be constructed at an estimated cost of USD 21 million, the project was recently accepted for registration.

viii. Uganda Rural Water Development Project

The Uganda Rural Water Development Project proposes to develop large diameter ground water wells in stressed parts of the country in conjunction with the Ministry of Water and Environment (MWE) with the help of a private party – M/S Hydro Nota Ltd in a Public Private Partnership (PPP). The PPP is estimated to cost approximately USD 650 million and will be used towards designing, building, financing, operating and transferring (DBFOT) of the wells and associated infrastructure. The project is currently undergoing evaluation of the project agreement by PPP Unit.

3. Implicit Contingent Liabilities

Non-guaranteed debt is one of the sources of implicit contingent liabilities and its constitutes debt taken on by State-Owned Enterprises (SOEs), Local Governments (LGs) and Extra-Budgetary Units (EBUs) which is not backed by any Government guarantee. The borrowing is approved by the MoFPED but there is no explicit obligation for the GoU to intervene in case of default.

3.1 Disbursed and Outstanding debt of State-Owned Entities and Extra-Budgetary Units

Between June 2019– June 2020, the stock of debt (direct domestic and external borrowing plus on-lent) of public entities amounted to UGX 10,069 billion (USD 2.8 billion), indicating an 11.4 percent increase from UGX 9,038 billion (USD 2.4 billion) as at end of June 2019. The increase was mainly attributed to a significant increase of domestic borrowing due to the COVID-19 pandemic, as well as a larger number of entities included in the June 2020 analysis. However, the total debt to assets ratio increased to 46.54% owing to the increase in external borrowing on-lending and other debt which includes lease contracts and overdrafts.

Table 3: Non-Guaranteed Debt and other Liabilities of SoEs and EBUs

<i>All in UGX Millions</i>	Financial Years UGX	
	June 2020	June 2019
Domestic Borrowing ¹	93,436	2,151,604
External Borrowing	611,754	67,116
Other debt (including lease contracts and overdrafts)	1,945,102	9,905
GoU On-Lent	7,419,302	6,810,324
Total outstanding debt excluding GoU on-lent loans	2,650,293	2,228,625
Total debt including GoU on-lent loans	10,069,870	9,038,949
Debt ratio (Total debt/total assets)²	46.54%	26.13%
Liabilities from grants and GoU contributions	3,239,667	2,187,877

Source: MoFPED

¹ This analysis is conducted on 93% of total entities and does not include those such as UTL, due to an unavailability of information. It is important to bear in mind that this report includes direct liabilities and GoU on-lent loans for the SoE and EBU total debt, differing from the Accountant General's report on these entities' contingent liabilities, due to different reporting methods.

² This is calculated for those entities with Debt only.

3.2 Stock of GoU on-lent loans

The stock of on-lent loans increased by 8 percent from UGX 6,826 billion as at June 2019 to UGX 7,419 billion as at June 2020. The on-lent loans provided to UEGCL and UETCL accounted for more than 99 percent of the total stock, and the remaining 1 percent of the on-lent loans were accounted for by the entities listed in the table below. Of these on-lent loans, 99.9% were to public entities, whereas 0.1% of the total stock of on-lent loans were to private entities. The financing for the public entities has mainly been provided for the development of priority energy generation and transmission projects. As shown in the Fig.1 and Fig.2 below, the total stock of GoU on-lent loans accounted for 72.2 percent of the total debt stock as at June 2020.

Figure 1: Combined sources of total debt excluding GoU on-lent loans

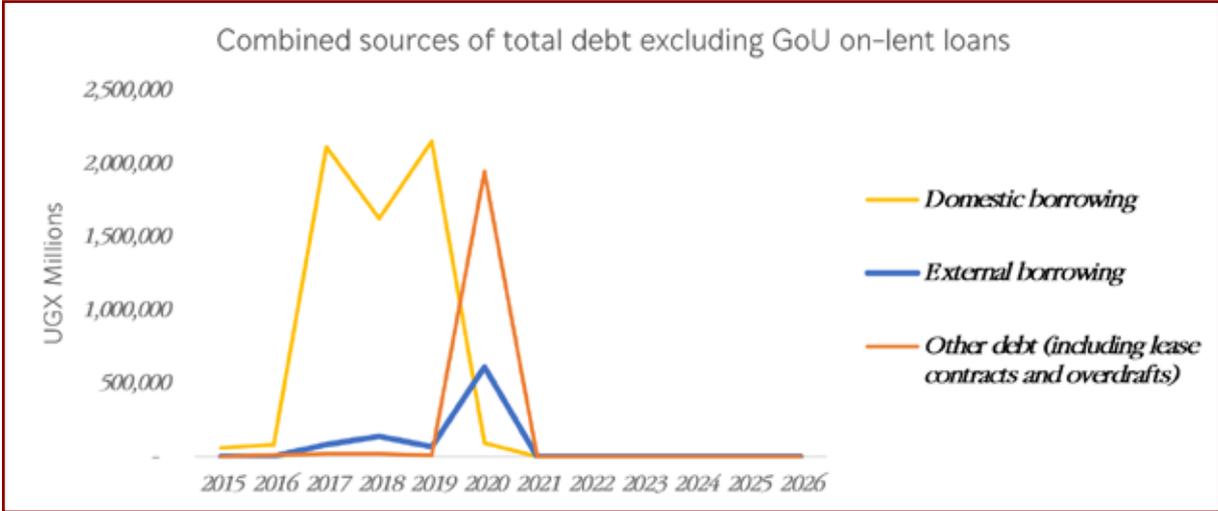


Figure 2: Combined sources of total debt including GoU on-lent loans

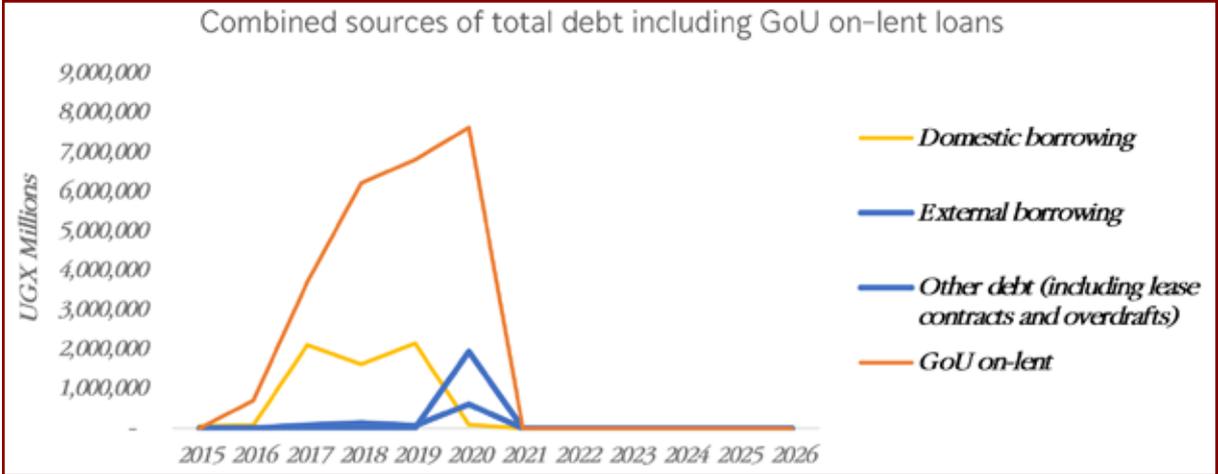


Table 4: List of Entities that have on-lent loans

Debtor Name	Balance in UGX As at 30.06.2020
State Enterprises	
Cable Corporation Limited	
DFCU	11,877,988,983
Kampala City Council	42,570,448,000
NPART	5,914,000,000
Uganda Printing & Publishing Corporation	944,092,240
Uganda Railways Corporation	128,531,809,156
Uganda Tea Authority	295,092,000
Uganda Tea Growers Corporation	186,962,092,000
BOU APEX Loans	38,600,324,403
ERT	-
Isimba	1,674,898,967,952
Karuma	4,788,371,519,703
National Trans. Backbone	51,385,720,756
Entebbe Airport	468,059,433,143
UDBL	10,430,440,748
Total Loans, Public Entities	7,408,841,929,084
Private Enterprises	
Akamba Uganda Limited	329,045,798
Baggrey Trading Company Limited	358,326,024
BTS (U) Limited	173,730,610
Central Purchasing Company Limited	5,326,322,326
Dick Kizito	169,378,642
G M Combine	368,008,078
G M Turnpeco Limited	55,576,260
HighWay Motors Limited	101,965,214
Jasaba Pharmaceuticals Limited	209,906,779
Kibuguma Coffee Growers Limited	58,300,476
Makyo Enterprises Limited	36,624,535
Marks Pharmaceuticals Ltd	72,487,473
Mpiima Trading Company Limited	58,673,804
Oscar Industries Limited	2,703,785
Seki Trading Company Limited	145,683,024
Sembule Steel Mills Limited	385,862,329
Tank Hill Quarry Limited	37,343,399
Uganda Motors Ltd	118,469,894
UPET	2,424,794,521
Total Loans, Private Entities	10,433,202,971
Agencies	
National Council of Sports	26,929,101
Total Loans, Agencies	26,929,101
Total On-Lent Loans	7,419,302,061,156

3.2.2 Financial Exposure to GoU through GoU on-lent loans

The Government of Uganda’s financial exposure for FY 2019–2020 arising from these on-lent loans is equal to the sum of interest arrears and principal arrears that the respective entities were obliged to pay during the financial year. This amount totaled a sum of UGX 336 billion, which constitutes 0.9% of GDP, indicating low financial exposure.

3.3 Grants and GoU contributions

Liabilities of public entities from subsidies, grants and GoU contributions amounted to UGX 3,240 billion at end of June 2020, indicating a 48 percent increase from UGX 2,187 billion as at end of June, 2019. This increase was mainly attributed to a 60 percent increase in the number of entities receiving grants as a consequence of more entities being included in the overall analysis. The overall average dependency of the public entities on these central government financial sources increased from 13 percent in June 2019 to 30 percent in June 2020 largely due to an increase in GoU contributions to three entities, namely, UEGCL, UETCL, and UDBL. While also the percentage of loss-making entities fell by 15 percent, the number of loss-making public entities is still high, standing at 25.3 percent of the total number of entities included in the analysis.

Figure 3: Proportion of Total Contingent Liabilities from SoEs and EBU's.

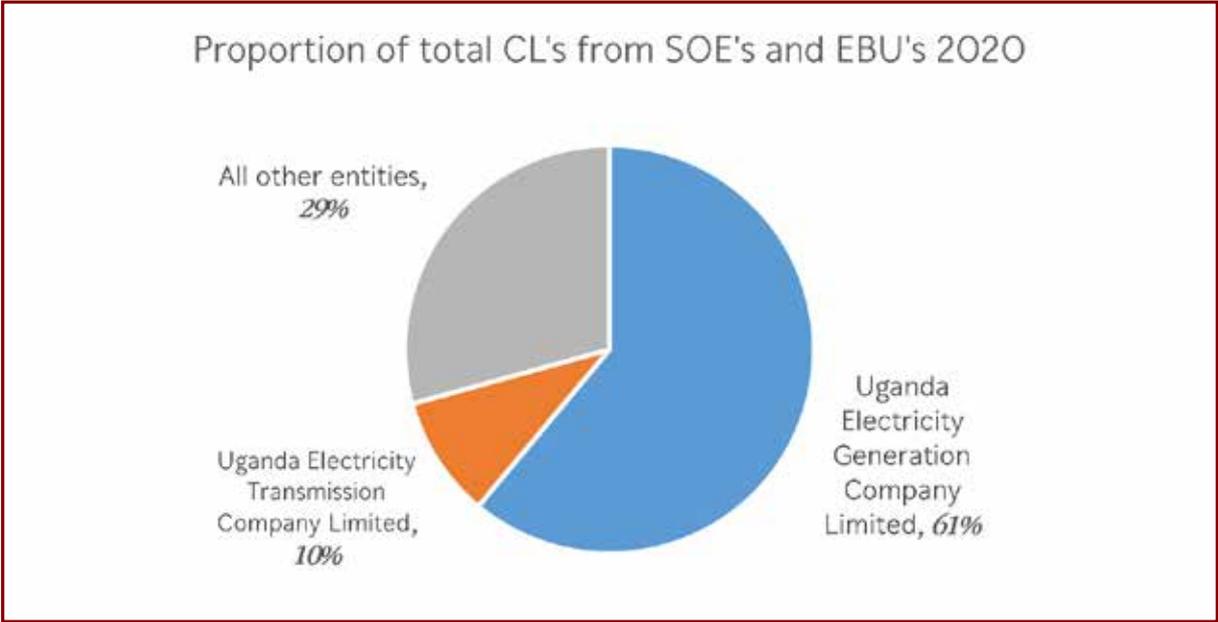
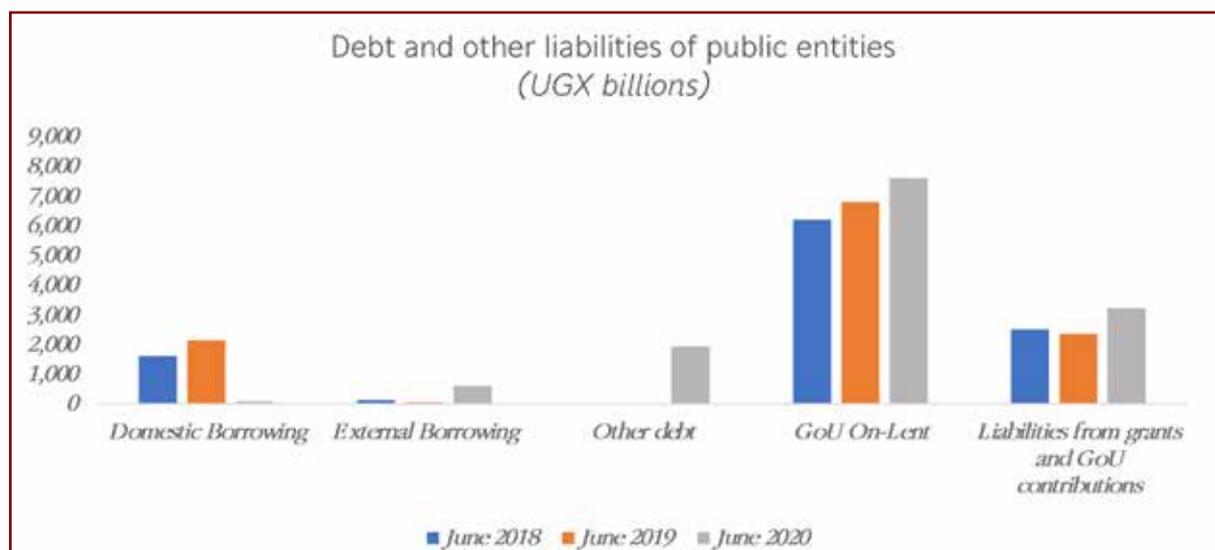


Figure 4: Distribution of debt and other liabilities of SoEs and EBUs



3.4 Non-Guaranteed Debt and Other Liabilities of Local Governments

In FY 2019/20, the debt stock for Local Governments (LG) stood at UGX 1 million, an increase from the previous year owing to the increase in domestic borrowing due to the Covid-19 pandemic. Total liabilities stood at UGX 136,880 million, indicating a 53% increase compared to FY 2018/19. This was attributed to an increase in capital grants and a 36% increase in current liabilities. From the observed numbers it was noted that LG debt poses the lowest fiscal risk compared to Guarantees, SoEs and EBUs.

Table 4: Contingent Liabilities arising from Local Governments

Category	June 2020 (UGX millions)	June 2019 (UGX millions)
Domestic loans	1	-
External loans	-	-
On-lending	-	-
Total outstanding debt including GoU on-lent	1	-
Current liabilities (including payables)	102,007	75,158.40
Other debts (including lease contracts and overdrafts)	-	-
GoU contributions	-	-
Capital grants	26,682	-
Pension liabilities	8,190	14,461.55
Total (other current liabilities)	136,880	89,619.95

Source: MoFPED³

³ Data in the table 4 above is based on 78% of the total analyzed financial statements for r financial statements of local Government collected during the field work exerciselocal Governments (FY2019/20).

3.5 Financial Stability of Banks

Financial and banking crises are part of the Implicit Liabilities that represent moral responsibility or burdens that, although not legally binding, are likely to be borne by Government because of public expectations or political pressures. The contingent liability section worked closely with the central bank to advise on financial insolvency cases and troubled commercial banks/ financial institutions.

This sub section shows commercial banks financial position through categories of tests done by the central bank.

These are;

- i. Asset Trends; – Examining whether the trends show a growth in good assets;
- ii. Capital Adequacy: – Verify if the available capital assets are adequate to continue with smooth operations.
- iii. Asset Quality: – Well performing assets are kept and bad loans are resolved;
- iv. Profitability: – Adequate profits are made with increasing purchase of good assets, resolving non-performing loans and improving efficiency of service without damaging the quality of service.
- v. Liquidity: – Sufficient liquidity to meet short term cash demands.

The domestic financial sector remained stable during FY 2019/2020. As at end of the financial year, June 2020, the asset trend indicated that commercial banks registered strong growth in assets, despite the emergence of several shocks including the COVID-19 pandemic.

The total domestic assets of the banking sector rose by 18.2 percent, from UGX 30.3 trillion in June 2019 to UGX 35.8 trillion in June 2020. Asset growth was mainly on account of a rise in gross loans and advances by 14.0 percent from UGX 13.6 trillion in June 2019 to UGX 15.5 trillion in June 2020.

The banks' holdings of government securities rose by 16.0 percent to UGX 7.7 trillion over the same period. On the liabilities side, customer deposits rose by 21.4 percent from UGX 21.0 trillion to UGX 25.5 trillion over the year ended June 2020.

The status of Capitalization; the banking sector remained adequately capitalized with the aggregate industry total capital to risk weighted assets ratio and core capital to risk weighted assets ratio at 22.9 percent and 21.0 percent respectively as at end of June 2020. This was well above the respective minimum capital adequacy requirements of 12 percent and 10 percent.

The asset quality indicated that commercial banks deteriorated over the year ended June 2020. The aggregate industry ratio of non-performing loans to gross loans rose from 3.8 percent to 6.0 percent. The stock of non-performing loans increased by 73.5 percent from UGX 515.1 billion in June 2019 to UGX 899.5 billion in June 2020, partly driven by the slowdown in economic growth and shocks to households and businesses from the COVID-19 pandemic.

The banking industry maintained adequate liquidity buffers, with the ratio of liquid assets to deposits standing at 49.1 percent as at end of June 2020, an improvement from 45.5 percent as at end of June 2019 and well above the regulatory minimum of 20 percent. Notable though, is that the four domestic systemically important banks (D-SIBs)¹ which account for 51.0 percent of total banking sector assets, continued to be adequately capitalized, had sufficient liquidity buffers and reported profits for the period under review. Bank of Uganda identifies D-SIBs annually, based on a framework designed benchmarked on the indicators-based approach by the Basel Committee on banking supervision.

4. Contingent Liabilities arising from Legal Proceedings

Legal proceedings against the Government (or any Government entity) are a major source of contingent liabilities and they are difficult to control. Contingent liabilities from litigious activities derive from settlements ruled against the government and in favor of third parties. Key drivers of these court claims include land compensation cases, contractual disputes, human right cases, and claims of negligence on the part of public officials.

The Government does not have the control to approve a contingent liability from legal proceedings, like is the case for guarantees and unguaranteed debt liabilities from public entities. When an individual or entity decides to sue the Government, the contingent liability is born. Therefore, no approval process is in place and the Government can only monitor, assess risks, take risk-mitigation measures and report on contingent liabilities from legal proceedings.

Where contingent liabilities have arisen as a consequence of legal action being taken against the Government of Uganda, the amount shown is the amount claimed and this the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the amount of any award against the Government of Uganda.

Total Stock of quantifiable Legal Proceedings

There was an increase in the stock of outstanding quantifiable legal proceedings by 10 % to UGX. 10,407.15 billion as at end June 2020 from UGX. 9,461.49 billion as at end June 2019. The gross exposure from legal claims for both MDA's and LG's is broken down as follows;

MDA's (Ministries, Agencies, Referral Hospitals and Embassies & Missions);

As at 30 June 2020, the stock of outstanding quantifiable legal proceedings was UGX 10,400 billion. The gross exposure from legal claims increased by 10% from UGX. 9,460 billion as at end June 2019 to UGX. 10,400 billion as at end June 2020. All contingent liabilities from legal proceedings are inform of domestic contingent liabilities.

LG's (District Local Governments)

As at end June 2020, the stock of outstanding quantifiable legal proceedings was UGX. 7.15 billion. The gross exposure from legal claims increased by 379.9% from UGX. 1.49 billion as at end June 2019.

NB: - The above-information is analyzed based on the draft reports and Consolidated Financial Statements of GoU for FY ended June 2020, and the Annual Report and Consolidated Financial Statements of Local Governments provided by the AG.

5. Challenges met during the Fieldwork

5.1 Challenges

Some financial statements could not be collected due to on-going audits for FY 2019/20. Many institutions indicated that there were delays in conducting and finalising audits of the financial statements by the Auditor General. Therefore, a number of institutions were not able to provide the required information within the required timelines.

Additionally, a host of institutions were difficult to reach, while others were non-compliant which, delayed compilation of responses. Overall, the submission of audited accounts was delayed due to the Covid-19 pandemic, especially for the Extra Budgetary units and state-owned enterprises

5.2 Recommendations

- i. The coverage of this report should increase to include other Implicit Contingent liabilities like results on monitoring all natural disasters in form of drought, floods, locust invasion, among others disasters which have an impact on lives, livelihood, damage of homes and infrastructure etc. The report ought to include the effects of pandemics and other diseases, monitoring reports on financial sector like the banking crises on financial losses faced by depositors in commercial banks if there is any, and the financial stability of the financial sector.
- ii. More work should be done to understand fiscal risk analysis on contingent liabilities.
- iii. We note that there are certain PPP projects whose implementation begun before the enactment of the PPP act of 2015, which need further analysis as they may contain contingent liabilities hence posing fiscal risk to Government.
- iv. Feasibilities studies on some PPP projects are currently ongoing which require involvement of Debt policy and issuance department to clearly capture the nature of Contingent liabilities and fiscal risk in the projects.

6. Annexes

Annex 1: Extract from the Public Financial Management Act, 2015.

Management of public debt.

1. The Minister shall be responsible for the management of the public debt, guarantees, and any other financial liabilities of Government.
2. The Minister shall, by 1st April, prepare and submit to Parliament a detailed report of the preceding financial year, on the management of the public debt, guarantees and the other financial liabilities of Government.
3. The report shall indicate the management of the public debt, guarantees, and the other financial liabilities of Government against the National Development Plan, the objectives of the Charter for Fiscal Responsibility, and the medium-term debt management strategy.
4. The Minister shall cause to be published, through the appropriate means, the report on the management of the public debt, guarantees, and the other financial liabilities of Government.

Annex 2: List of State-Owned Enterprises & Extra Budgetary Units included in the Contingent Liabilities Fieldwork Exercise in 2019/20

Education
Fisheries Training Institute
Hotel and Tourism Training Institute
Kabale University
Kyambogo University
Law Development Centre
Makerere University Business School
Management Training and Advisory Centre
Mbarara University
National Council for Higher Education
National Library of Uganda
Uganda Institute of Information and Communications Technology
Uganda Management Institute

Energy
Atomic Energy Council
Uganda Electricity Distribution Company Limited
Uganda Electricity Generation Company Limited
Uganda Electricity Transmission Company Limited
Uganda Petroleum Institute Kigumba

Financial
Bank of Uganda
Housing Finance Bank
Insurance Regulatory Authority
National Social Security Fund

Information and Communications Technology
Uganda Broadcasting Corporation
Uganda Communications Commission

Property and Construction

Uganda Property Holdings Limited

Trade

Uganda Export Promotion Board

Transport

Uganda Railway Cooperation

Water

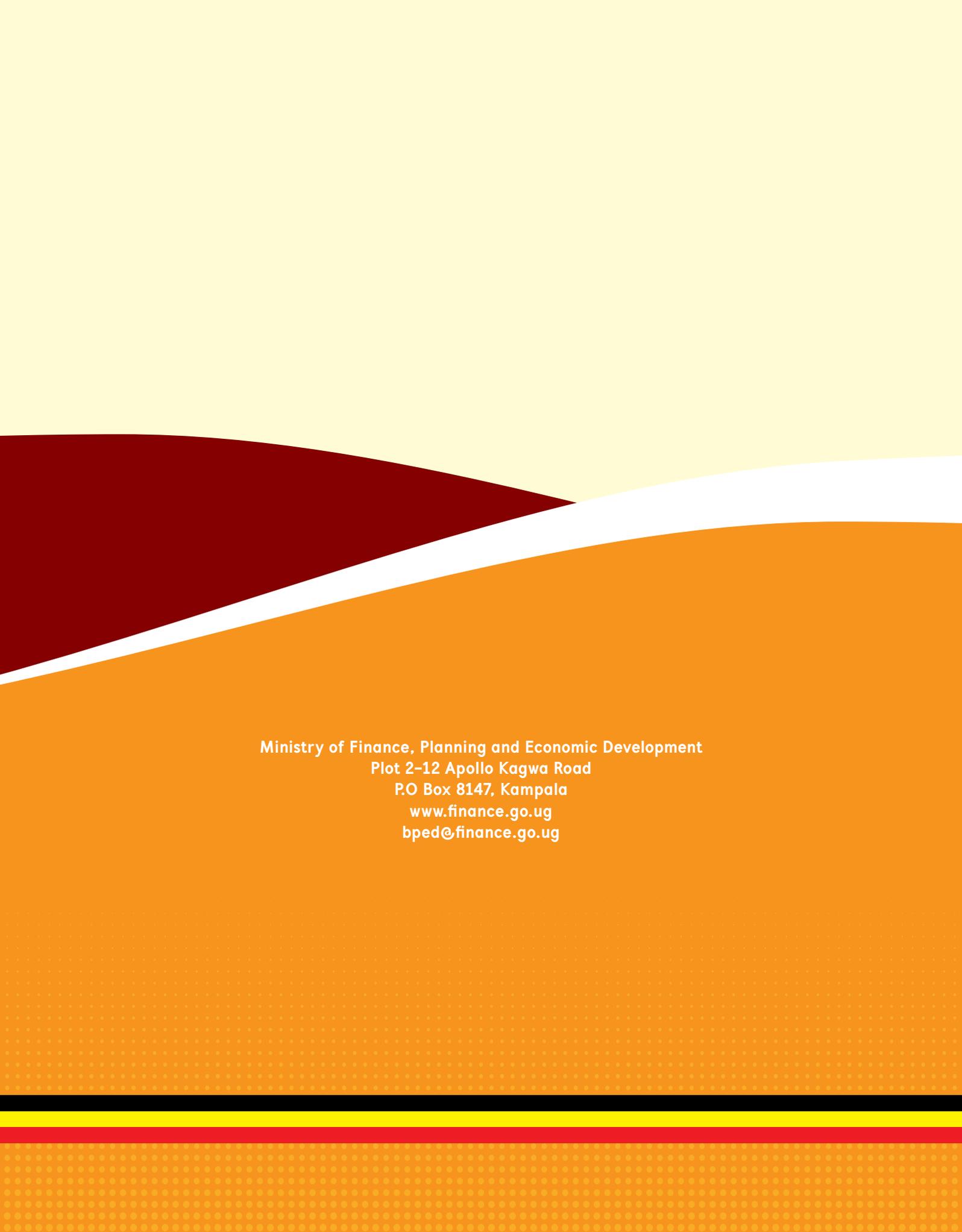
National Water and Sewerage Corporation

Annex 3: List of Local Governments included in the Contingent Liabilities Fieldwork Exercise in 2019/20.

Local governments
Mukono
Buikwe
Kayunga
Luwero
Nakasogola
Masindi
Kiboga
Kyankwanzi
Wakiso
Mpigi
Butambala
Gomba
Sembabule
Bukomansimbi
Kalungu
Masaka
Kyotera
Lwengo
Jinja
Kamuli
Kaliro
Iganga
Bugiri
Namutumba
Kibuku
Budaka
Pallisa
Soroti
Soroti University
Busia
Busitema Univeristy

Local governments
Tororo
Manafawa
Bududa
Bulambuli
Sironko
Mbale
Butaleja
Bukedea
Ngora
Serere
Amuria
Katakwi
Mbarara
Mbarara University
Isingiro
Kabale
Kabale University
Rubanda
Kisoro
Rukungiri
Kanungu
Ntungamo
Mbarara
Mubende
Kyegegwa
Kyenjojo
Bundibugyo
Kasese
Rubirizi
Mitooma
Bushenyi

Local governments
Sheema
Apac
Oyam
Kole
Lira
Lira University
Dokolo
Otuke
Pader
Omoror
Gulu
Gulu University
Pakwach
Nebbi
Zombo
Muni University
Arua
Maracha
Koboko
Yumbe



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