



The Republic of Uganda

Contingent Liabilities Annual Report

FY 2022/2023

Directorate of Debt and Cash Policy

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

www.finance.go.ug

February 2024

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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
PFMA	Public Finance Management Act
PDMF	Public Debt Management Framework
CFRS	Charter of Fiscal Responsibility
FRS	Fiscal Risks Statement
DSB	Debt Statistical Bulletin
DSA	Debt Sustainability Analysis
IUIU	Islamic University in Uganda
KFAED	Kuwait Fund for Arab Economic Development
LG	Local Governments
CA	Contracting Authority
MoFPED	Ministry of Finance, Planning and Economic Development
OPEC	Organization 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

Uganda has historically focused on recognizing domestic debt liabilities such as Treasury bills, bonds, operational arrears, and government guarantees. However, there is a need to acknowledge a broader spectrum of both direct and indirect liabilities that have not been consistently accounted for or estimated. These encompass contingent liabilities arising from diverse Public-Private Partnership (PPP) agreements, legal disputes, and unguaranteed debts of public and publicly aided corporations and tertiary institutions.

The 2023 Public Debt Management Framework marks a pivotal shift by encompassing a wider array of liabilities, crucial for a comprehensive assessment of the government's total liability exposure. Notably, this framework mandates the annual estimation and publication of contingent liabilities, ushering in a systematic approach to record, monitor, and analyze these liabilities each year. This strategic process not only facilitates a better understanding of current and future budgetary implications but also serves as a proactive measure for the government to identify and mitigate potential contingent liabilities.

In Uganda, contingent liabilities encompass potential government obligations stemming from unforeseen future events, spanning from implicit expectations of crisis intervention to explicit legal or contractual commitments. While loan guarantees represent the primary explicit liabilities, debts from State-Owned Enterprises (SOEs) and legal cases also pose substantial fiscal risks. Even when not classified as contingent, SOE debts can threaten the nation's financial stability.

This report draws upon audited financial statements for the fiscal year 2022/23 from various public corporations and tertiary institutions. Additionally, it integrates information on legal proceedings sourced from the Ministry of Justice and Constitutional Affairs (MOJCA) and data on contingent liabilities from public-private partnerships provided by the PPP Unit within Ministry of Finance, Planning and Economic Development (MoFPED).

I extend my sincere appreciation to all cooperating public entities, local governments, the management of MoFPED, and the Directorate of Debt and Cash Policy staff for their dedicated efforts in compiling this report. I am confident that the insights and recommendations within this report will serve as a valuable resource for policymakers, analysts, and stakeholders alike, contributing significantly to informed decision-making and effective debt management practices in Uganda. I eagerly anticipate the implementation of the recommendations outlined herein.



Maris Wanyera

Acting Director, Directorate of Debt and Cash Policy

EXECUTIVE SUMMARY

The Directorate of Debt and Cash Policy (DDCP) within the Ministry of Finance, Planning and Economic Development (MoFPED) compiles a comprehensive annual report on Uganda's contingent liabilities. The latest report for the fiscal year 2022/23 details the Government of Uganda's various contingent liabilities, including loan guarantees, debts of state entities, liabilities from public-private partnerships, and legal action against the GoU.

Explicit contingent liabilities kept rising this year. The number of loan guarantees experienced a notable increase by December 2023, rising from 9 to 12. This rise, bringing the total guaranteed loan portfolio to USD 120 million, was primarily driven by disbursements from international financial entities like the Islamic Development Bank, International Islamic Trade Finance Corporation, OPEC Fund, and the Arab Bank for Economic Development in Africa. The Uganda Development Bank Limited and the Islamic University in Uganda are major holders of these guarantees. Despite an 8.1% increase in government's exposure to this debt, reaching USD 56.22 million, the debt-to-GDP ratio remains stable and compliant with the Guidelines for the Management of Contingent Liabilities. As of December 2023, under the Public-Private Partnership (PPP) Act 2015, there were 35 active PPP projects. None of these projects have so far achieved financial closure, thus no assessments have been conducted to determine the contingent liabilities that may arise from the agreements linked to these projects.

Borrowing by public enterprises continues to rise. This poses an implicit contingent liability for the Government. As of the end of June 2023, the total debt of public entities, including state-owned enterprises (SOEs) and extra budgetary units (EBUs), stood at UGX 2,151.6 billion.

Liabilities from subsidies, grants, and contributions by the Uganda government to public entities rose by 16.9% to UGX 1,467 billion, despite a significant drop in their average reliance on these funds. Loan approvals totalled UGX 38.2 billion, with 8 entities repaying in full and 13 compliant with their loan obligations.

Finally, Uganda's local government debt decreased from UGX 54.9 million in June 2022 to UGX 16.9 million in June 2023, primarily due to a reduction in liabilities from a court case against Mbale City, with total liabilities dropping 14% to UGX 48,878 million, indicating a lower fiscal risk compared to guarantees, state-owned enterprises, and extra budgetary units.

By June 2023, Uganda's government faced a 14.3% increase in explicit contingent liabilities from legal proceedings, reaching UGX 4.41 trillion, mainly due to large domestic claims within Ministries, Departments, and Agencies (MDAs).

1. INTRODUCTION

1.1 BACKGROUND

The Ministry of Finance, Planning and Economic Development (MoFPED) compiles the annual contingent liabilities report as a vital tool for monitoring potential financial risks to the central government. This report tracks contingent liabilities, which are defined as potential financial obligations stemming from past events. Their confirmation depends on future events that are uncertain and largely beyond the government's control. If these events come to pass, the government would need to allocate funds to fulfil these obligations, introducing fiscal risks. As such, this report is key in guiding decisions on both risk mitigation for current guarantees and the approval of new ones. It offers in-depth analysis of contingent liabilities, aiding policymakers in evaluating and managing potential fiscal threats. This ensures sound fiscal management and protects government finances.

1.2 METHODOLOGY

The annual contingent liabilities report is meticulously compiled using a field-based approach, primarily drawing from the audited financial statements of the previous financial year, FY2022/23. This process is integral to collecting detailed information on the explicit and implicit contingent liabilities of the Government of Uganda. The focus of this exercise spans a range of sources, including government guarantees, liabilities of State-owned Enterprises (SoEs), Extra Budgetary Units (EBUs), local governments, liabilities from legal proceedings, commitments in Public-Private Partnership (PPP) agreements, and potential liabilities linked to the financial sector, especially from financial institutions.

The data collection process revolves around a thorough examination of audited financial statements. These documents are essential as they provide validated and accurate insights into the financial responsibilities and positions of various government entities, thereby ensuring the reliability and authenticity of the data gathered.

Following the data compilation, an extensive analysis is undertaken to pinpoint, evaluate, and understand the scale and character of the contingent liabilities. This analysis forms the foundation for creating detailed spreadsheets, tables, and graphs that are included in the final report. These visual tools are crucial in effectively presenting the data, making it more accessible and easier to comprehend. They play a significant role in elucidating the fiscal risks associated with these contingent liabilities.

1.3 REPORT STRUCTURE

The report is structured into five key segments to provide a comprehensive analysis:

1. **Introduction:** Sets the stage by providing an overview of the report's scope and objectives.
2. **Explicit Contingent Liabilities:** Delves into a detailed analysis of the explicit contingent liabilities of the Ugandan government, including loan guarantees and other clearly defined financial obligations.
3. **Implicit Contingent Liabilities:** shifts focus to examine implicit contingent liabilities associated with state-owned enterprises, extra-budgetary units, and local governments. This

section explores potential financial risks that may not be immediately apparent but could impact the government's fiscal position.

4. **Analysis of Legal Proceedings-Related Contingent Liabilities:** analyzes contingent liabilities arising from legal proceedings, highlighting the financial implications of ongoing or potential legal disputes faced by the government.
5. **Conclusion and Recommendations:** consolidates the findings, discusses challenges encountered during fieldwork, and proposes relevant recommendations to mitigate risks and improve debt management practices.

2. EXPLICIT CONTINGENT LIABILITIES

Explicit contingent liabilities denote potential financial commitments of a government, formed through contractual agreements, laws, or policies. Such liabilities oblige the government to meet specific obligations as per the conditions stipulated in contracts, laws, or policies. Typical examples of explicit contingent liabilities encompass loan guarantees, government-supported guarantee schemes, legal proceedings, and contingent liabilities emerging from Public-Private Partnership arrangements.

2.1 LOAN GUARANTEES

By the close of December 2023, the number of active loan guarantees had risen to 12, up from 9 in the previous year (Table 4). This increase was largely due to loan disbursements from organisations like the Islamic Development Bank, International Islamic Trade Finance Corporation, the Organization of Petroleum Exporting Countries Fund, and the Arab Bank for Economic Development in Africa. Consequently, the total value of the guaranteed loan portfolio escalated to USD 120 million.

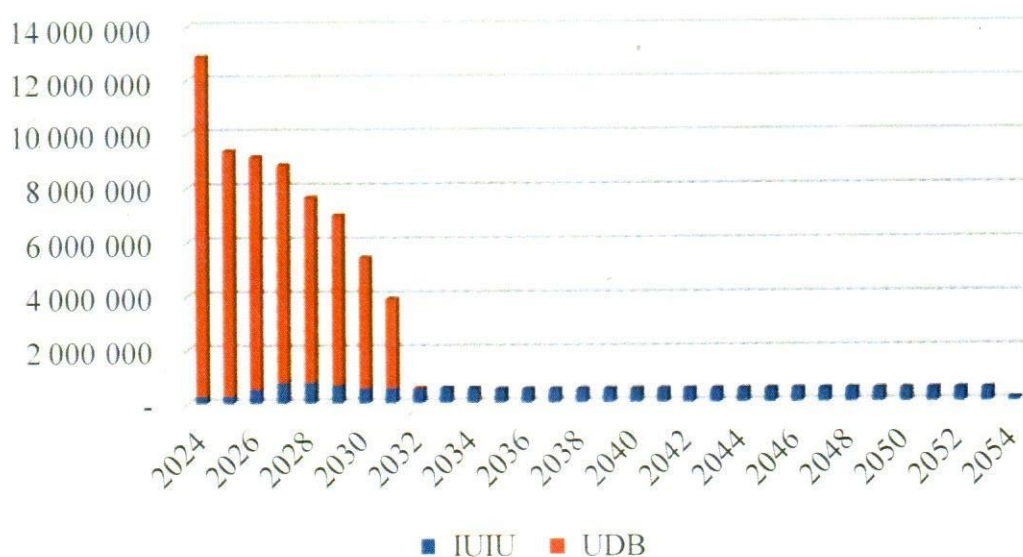
The bulk of this portfolio is managed by two entities: Uganda Development Bank Limited, holding 9 of the 12 guarantees, and the Islamic University in Uganda, holding the remaining 3. In terms of guaranteed creditors, the Islamic Development Bank leads with a commitment of USD 29.1 million, followed by BADEA at USD 26 million, and the OPEC Fund for International Development at USD 20 million. The India EXIM Bank has the smallest share at USD 5 million, closely followed by the International Islamic Trade Finance Corporation with USD 10 million. The African Development Bank and the European Investment Bank each have a stake of USD 15 million.

The government's total exposure to this disbursed and outstanding guaranteed debt reached USD 56.22 million by December 2023, an increase of 8.1% from the previous year. This rise is attributed to the disbursements from the aforementioned institutions, surpassing the repayments made. However, the ratio of this disbursed and outstanding guaranteed debt to the GDP remained stable at around 0.12%, identical to the previous year and well below the 5% threshold set in the Guidelines for the Management of Contingent Liabilities.

2.1.1 Risks Associated with Guarantee Portfolio

The present portfolio of guaranteed loans is characterised by extended maturity periods, spanning from 7 to 25 years, with the weighted average maturity being 8 years. This suggests a reduced yearly exposure for the government in the event of a default, as the debt service is distributed over an extended timeframe. The redemption profile of the guarantee portfolio illustrates this in Figure 1. Notably, there is a significant concentration of repayments scheduled for the calendar year 2024, amounting to USD 12.9 million, with the majority due from Uganda Development Bank (UDB).

Figure 1: Redemption Profile for Guarantees (USD)



Source: MoFPED

Note: The figure represents the redemption profile of the Uganda Development Bank (UDB) and the Islamic University in Uganda (IUIU).

The analysis of the redemption profile highlights a significant clustering of repayments in the 2024 calendar year, amounting to USD 12.9 million, with Uganda Development Bank Limited (UDB) responsible for 98% of this figure. Despite this concentration, it is important to note that this amount does not notably strain UDB's ability to fulfil its repayment obligations. Considering the modest size of the total repayment in conjunction with UDB's financial strength, the 2024 repayment concentration is not viewed as a major risk to the bank's repayment capacity.

Table 1: Credit Rating of Guaranteed Entities

Entity	Rating (Moody's Equivalent)	Definitions	Source of Rating
Uganda Development Bank Limited	Aa	Obligations judged to be of high quality and are subject to very low credit risk	GCR ratings (Moody's affiliate)
Islamic University in Uganda	Baa	Obligations are judged to be medium grade and subject to moderate credit risk and as much may possess certain speculative characteristics	Internal rating

Uganda Development Bank, with its Aa score on the Moody-equivalent rating scale, is deemed to have obligations of high quality and very low credit risk. Therefore, the likelihood of the bank defaulting

on its guaranteed debt obligations is considered extremely low. This rating reflects the bank's robust financial position and its capability to honour its commitments. It provides a high level of assurance to both creditors and the Government, as a guarantor, regarding the timely repayment of debt.

In contrast, the Islamic University in Uganda (IUIU) has a moderately higher risk of default compared to UDB. Although this rating suggests a higher level of credit risk, it does not signal an immediate risk of default. Nonetheless, the Government should remain aware of the moderate credit risk associated with IUIU's obligations. This situation calls for more vigilant monitoring and the development of risk management strategies to mitigate potential default risks.

2.1.2. Probability of Default

In light of the above ratings, the respective probability of defaulting for the two entities is distributed in Table 2 for the next 5 years.

Table 2: Probability of Default

Entity	Rating	Year 1 (%)	Year 2 (%)	Year 3 (%)	Year 4 (%)	Year 5 (%)
Uganda Development Bank	Aa	0.02	0.07	0.14	0.25	0.39
Islamic University in Uganda	Baa	0.17	0.53	0.88	1.32	1.83

Source: Moody's

Given the low probabilities of defaulting observed historically, it seems fair to conclude that the likelihood of default on guaranteed debt obligations remains minimal for both the Uganda Development Bank and the Islamic University in Uganda. Each of these entities has consistently fulfilled their financial commitments, a fact evidenced by their respective credit ratings and historical patterns of repayment. Although there is a moderate credit risk linked to certain entities, notably the Islamic University in Uganda, the overall risk of default on guaranteed debt is considered to be low. Nevertheless, it is still essential to uphold prudent risk management practices, continuous monitoring, and contingency planning to effectively manage any potential risks that might emerge in the future.

2.1.3 Expected Loss by Government

Considering the low default probabilities observed historically, the expected losses for the government are projected to be low. These expected losses, calculated as a function of Exposure at Default (EAD), Loss Given Default (LGD), and Probability of Default (PD), represent the potential financial consequences of default events for the government. With the minimal likelihood of defaults, combined with the strong financial standings and creditworthiness of entities like the Uganda Development Bank and the Islamic University in Uganda, the expected losses are likely to stay at minimal levels. This evaluation highlights the government's relatively limited risk exposure in its guarantee portfolio. The distribution of forecasted future losses over the next five years is provided in

Table 3.

Table 3: The Distribution of Forecasted Future Losses

	2024	2025	2026	2027	2028
Uganda Development Bank	2,520.53	6,354.98	12,079.74	20,111.42	26,713.65
Islamic University in Uganda	471.43	1,469.74	4,628.10	10,223.81	14,173.92
Total (USD)	2,991.96	7,824.72	16,707.84	30,335.23	40,887.57

Source: MoFPED

Table 4: Debt Stock Under Guarantee and Government Risk Exposure

No.	Beneficiary	Project	Creditor	Guaranteed Amount (USD)	Tenure (Years)	Undisbursed (USD)	Disbursed and Outstanding (USD)		Performance
							Dec-22	Dec-23	
1	Islamic University in Uganda	Student's hostel	Islamic Development Bank (IDB)	4,302,676	25	-	1,408,107	1,310,364	Repayment on schedule
2	Islamic University in Uganda	Student's hostel project additional financing	Islamic Development Bank (IDB)	983,888	20	-	529,676	511,176	Repayment on schedule
3	Islamic University in Uganda	Constructing faculty of engineering, upgrade the library and purchase ICT equipment	Islamic Development Bank (IDB)	13,790,000	18	10,827,861	100,000	2,962,139	Not fully disbursed
4	Uganda Development Bank Limited	Private sector projects and trade transaction in the Republic of Uganda	The Arab Bank for Economic Development in Africa. (BADEA)	6,000,000	10	-	3,374,900	2,624,900	Repayment on schedule
5	Uganda Development Bank Limited	Private sector projects and trade transaction in the Republic of Uganda	Islamic Development Bank (IDB)	10,000,000	8	-	1,362,801	843,331	Repayment on schedule

No.	Beneficiary	Project	Creditor	Guaranteed Amount (USD)	Tenure (Years)	Undisbursed (USD)	Disbursed and Outstanding (USD)		Performance
							Dec-22	Dec-23	
6	Uganda Development Bank Limited	On-lending exclusively to eligible projects in various sectors in Uganda Including in priority targeted sectors.	African Development Bank	15,000,000	10	-	12,187,500	10,312,500	Repayment on schedule
7	Uganda Development Bank Limited	To finance import of goods and services from India.	Exim India	5,000,000	7	-	3,214,185	2,499,900	Repayment on schedule
8	Uganda Development Bank Limited	Funds for project Finance especially women led projects and youth	European Investment Bank	15,000,000	-	15,000,000	-	-	Undisbursed
9	Uganda Development Bank Limited	Funding for Trade Finance projects	International Islamic Trade Finance Corporation	10,000,000	1	-	9,838,247	1,403,843	Repayment on schedule
10	Uganda Development Bank Limited	Funds for project Finance (SMEs in key growth sectors)	OPEC Fund for International Development	20,000,000	8	-	20,000,000	18,750,000	Repayment on schedule

No.	Beneficiary	Project	Creditor	Guaranteed Amount (USD)	Tenure (Years)	Undisbursed (USD)	Disbursed and Outstanding (USD)		Performance
							Dec-22	Dec-23	
11	Uganda Development Bank Limited	Funding of projects in key growth sectors of Uganda	The Arab Bank for Economic Development in Africa. (BADEA)	10,000,000	7	-	-	5,000,000	Repayment on schedule
12	Uganda Development Bank Limited	Trade finance line for importation of good from Arab countries	The Arab Bank for Economic Development in Africa. (BADEA)	10,000,000	7	-	-	10,000,000	Fully disbursed
TOTAL				120,076,564		25,827,861	52,015,416	56,218,154	

Source: MoFPED, Directorate of Debt and Cash Policy

2.2 CONTINGENT LIABILITIES RELATED TO PPP CONTRACTS

Public-private partnerships (PPPs) have become a crucial tool for driving infrastructure development and fostering economic growth in Uganda. However, it is important to recognize the fiscal risks associated with PPPs, encompassing both direct commitments and contingent liabilities. Direct commitments refer to the financial responsibilities explicitly undertaken by the government in PPP contracts, such as payments for the construction, operation, and maintenance of infrastructure.

Contingent liabilities, on the other hand, stem from potential future obligations that could arise under certain conditions, like revenue guarantees, foreign exchange guarantees, or compensation for project failures. These liabilities present risks to the government's finances, as they may lead to significant financial outlays if they come to pass. Thus, careful structuring and management of PPP agreements are crucial for the government to effectively mitigate these fiscal risks. Strong risk assessment procedures, clear disclosure practices, and sound fiscal management are vital in ensuring that PPP projects not only contribute to Uganda's development but also maintain fiscal stability.

As of the end of December 2023, the number of signed PPPs operating under the framework of the PPP Act 2015 has doubled since last year—from 17 to 34. Notably, none of these projects had reached financial closure by this point in time. Consequently, no estimates have been made thus far regarding contingent liabilities embedded within the various agreements associated with these projects.

Table 5: Signed PPP Projects

#	Project Name	Contracting Authority	Registration Date	Projects size	Stage	Update
1.	Kampala Waste Management PPP	KCCA	13 March 2018	UGX 163 billion	Feasibility	KCCA verbally in a meeting at MOFPED, indicated fundamental departure to progress with the project as initially conceptualised. MOFPED awaits formal communication of this position.
2.	Entebbe 666 Iconic ICT Park	NITA-U	22 November 2022	USD 180 million	Procurement of a private party	Project under procurement phase, launched under the direct procurement mode.
3.	Redevelopment of National Council of Sports Complex – Lugogo	National Council of Sports	6 June 2017	USD 19 million	Procurement of a transaction advisor	The project has stalled due to procurement because of lack of funds for transaction advisory/ feasibility study.
4.	Redevelopment of Uganda National Cultural Centre	UNCC	10 May 2017	USD 174 million	Procurement of a Transaction Advisor	The project has stalled due to procurement because of lack of funds for transaction advisory/ feasibility study.

	(UNCC) Properties					
5.	Mulago Car Parking	Mulago National Referral Hospital	10 May 2017	USD 19.1 million	Project on hold because of lack of funds for feasibility study	Project on hold because of lack of funds for feasibility study.
6.	Gulu Logistics Hub	Uganda Railways Corporation (URC)	9 November 2020	USD 21 million	Procurement of private party	Signing of MOU between URC and URA on operational modalities.
7.	Uganda Rural Water Development Project	Ministry of Water and Environment	9 November 2020	Approx. USD 650 million	Feasibility study	Project has stalled because of lack of funds for transaction advisory/ feasibility study.
8.	Uganda Post Ltd (UPL) properties Development Project	Posta Uganda	20 September 2017	USD 224 million	Feasibility study	Feasibility study ongoing.
9.	Uganda coffee development Authority-multi-use office complex project	Uganda coffee development Authority	22 November 2021	UGX 60 billion	Concept stage	<ul style="list-style-type: none"> Evaluation process for the procurement of Transaction Advisory services duly completed. UCDA to secure budget commitment from line Ministry (MAAIF).
10.	Ministry of Trade and Industry-Office Accommodation Complex	Ministry of Trade and Industry-	22 November 2021	UGX 230 billion	Concept stage	Awaiting confirmation from MTIC on intended progress.
11.	Busitema University Multi-Purpose Business Complex	Busitema University	22 November 2021	UGX 4.7 billion	Concept stage	Project has stalled because of lack of funds for feasibility study.
12.	Kyambogo University Students' Accommodation Project	Kyambogo University	23 May 2022	UGX 34.56 billion	Feasibility study stage	<ul style="list-style-type: none"> Transaction Advisor (TA) recruited; TA services commenced on: 27/09/23 Draft Inception Report presented to key stakeholder representatives by the TA: 12/10/23.
13.	Kyambogo University Multipurpose	Kyambogo University	23 May 2022	UGX 20.52 billion		

	Sports Complex Project					<ul style="list-style-type: none"> Draft Inception Report submitted to Kyambogo University by the TA: 19/10/23. Report currently under review. Feasibility study ongoing.
14.	Kyambogo University Multipurpose Business Centre Project	Kyambogo University	23 May 2022	UGX 25.56 billion		
15.	Uganda Coffee Development Authority Soluble Coffee Processing Plant Project	Uganda Coffee Development Authority	23 May 2022	USD 50 million	Feasibility study stage	<ul style="list-style-type: none"> Transaction Advisor (TA) procured; TA Services commenced: 11/05/23. First draft of feasibility study report duly completed by the Transaction Advisor. Second draft submitted and reviewed by key stakeholders; feedback provided to the TA to address the issues noted.
16.	Uganda Railways Corporation – Inland Container Depot at Mukono for registration.	Uganda Railways Corporation	16 December 2022	USD 20 million	Concept stage	URC awaiting budget allocation to undertake feasibility study.
17.	Nansana Municipality Green and Sustainable Car Park Complex- Nansana Municipality	Nansana Municipality	1 June 2023	UGX 15.1 billion	Concept stage	Project needs funding for feasibility study.
18.	Construction of a Sports Centre at Namate Sports Ground - Entebbe Municipality	Entebbe Municipality	1 June 2023	UGX 5 billion	Concept stage	Project needs funding for feasibility study.
19.	James Grant Tourist Site and Development of Lolwe Island Tourist Facility – Namayingo District	Namayingo District	1 June 2023	UGX 2.06 billion	Concept stage	Project needs funding for feasibility study.

20.	Ministry of Internal Affairs Staff Housing Project	Ministry of Internal Affairs	28 November 2024	UGX 4 trillion	Concept stage	Project needs funding for feasibility study.
21.	Mbarara Regional City Abbatoir	Mbarara City Council	28 November 2024	UGX 43.6 billion	Concept stage	Project needs funding for feasibility study.
22.	Gulu City Layibi Central Market	Gulu city	28 November 2023	UGX 2 billion	Concept stage	Project needs funding for feasibility study.
23.	Mukono Eco-Tourism and Apiary Centre Project by Mukono District	Mukono District	28 November 2023	UGX 8.7 billion	Concept stage	Project needs funding for feasibility study.
24.	Buyiga Solar Grid Project	Mpigi District	28 November 2023	UGX 3.3 billion	Concept stage	Project needs funding for feasibility study.
25.	Koome Solar Powered Grid Project	Mukono District	28 November 2023	UGX 7 billion	Concept stage	Project needs funding for feasibility study.
26.	Goma Grid Solar Project by Mukono Municipality	Mukono Municipality	28 November 2023	UGX 25.5 billion	Concept stage	Project needs funding for feasibility study.
27.	Katikolo Mini Grid Project by Munkono Municipality	Mukono Municipality	28 November 2023	UGX 4.9 billion	Concept stage	Project needs funding for feasibility study.
28.	Soroti City Development of Waste Collection and Management Project	Soroti City	28 November 2023	UGX 7.5 billion	Concept stage	Project needs funding for feasibility study.
29.	Purongo Cultural Centre by Nwoya District	Nwoya District	28 November 2023	UGX 5 billion	Concept stage	Project needs funding for feasibility study.
30.	Soroti District Development of Affordable Housing	Soroti District	28 November 2023	UGX 51.95 billion	Concept stage	Project needs funding for feasibility study.

31.	Development of Lira District Solar PV Station	Lira District	28 November 2023	UGX 232.59 billion	Concept stage	Project needs funding for feasibility study.
32.	Multi-purpose resource centre in Arua City	Arua City Council	28 November 2023	UGX 2 billion	Concept stage	Project needs funding for feasibility study.
33.	Mbale Stadium Project by Mbale City	Mbale City Council	28 November 2023	UGX 40 billion	Concept stage	Project needs funding for feasibility study.
34.	Oyam District Solar PV Station	Oyam District	28 November 2023	UGX 17.89 billion	Concept stage	Project needs funding for feasibility study.

Source: MoFPED; (PPP-Unit)

3. IMPLICIT CONTINGENT LIABILITIES

Implicit liabilities are understood as moral obligations or burdens that, while not legally enforceable, are often assumed by governments due to public expectations or political pressures. Traditional fiscal analysis usually focuses more on the direct, explicit liabilities of governments. A key source of implicit contingent liabilities is non-guaranteed debt, which encompasses debts incurred by state-owned enterprises (SOEs), local governments (LGs), and extra-budgetary units (EBUs) without any government guarantee. Although this borrowing receives approval from the Ministry of Finance, Planning and Economic Development (MoFPED), there is no formal obligation for the Government of Uganda to step in in the event of a default.

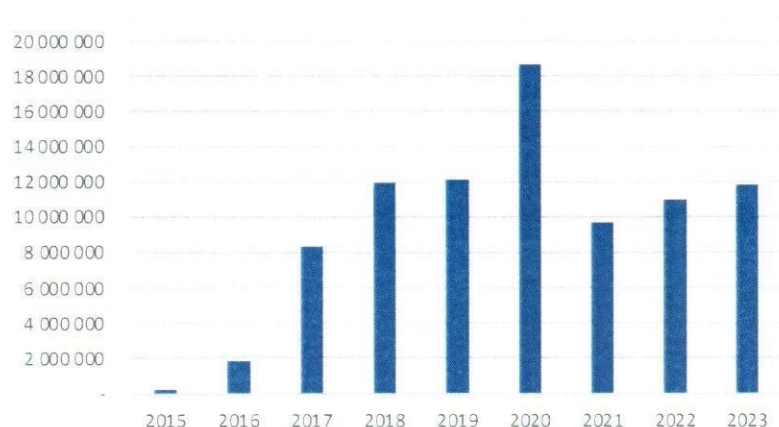
As of the end of June 2023, the debt of public entities, including state-owned enterprises (SOEs) and extra budgetary units (EBUs), stood at UGX 2,151.6 billion.¹

3.1 TREND OF TOTAL SOE LIABILITIES

The trend analysis of state-owned enterprises (SOE) and extra budgetary units (EBU) contingent liabilities in Uganda from 2015 to 2023 shows a significant rise over the period. Starting at UGX 0,204 trillion in 2015, there was a notable surge in 2016 to UGX 18,09 trillion, possibly indicating a major event or policy shift that significantly increased liabilities. This upward trajectory sharply peaked in 2020 at UGX 18,649 trillion. The decline to UGX 9,646 trillion in 2021 likely mirrors the global financial repercussions of the COVID-19 pandemic, which might have led to decreased borrowing or restructured liabilities in the country. Post-2021, the trend once again ascended, albeit at a more gradual pace, reaching UGX 11,776 trillion in 2023, suggesting a recovery phase following the pandemic.

This increasing trend in SOE and EBU contingent liabilities from 2015 to 2023 indicates a growing risk to the government's financial stability in Uganda. The escalation of these liabilities poses potential future financial obligations for the government, impacting its fiscal budget and resource allocation. The sharp rise and the subsequent fluctuation during the COVID-19 pandemic period highlight the vulnerability of SOEs and EBUs to global economic disturbances. This trend accentuates the need for effective risk management and continuous monitoring of contingent liabilities to manage their influence on Uganda's economy.

Figure 2: Trend of Total Liabilities of SOEs and EBUs (UGX million)



Source: MoFPED

3.2 DISBURSED AND OUTSTANDING DEBT OF SOES AND EBUS

For transparency purposes, the on-lent loans are briefly detailed here. As of the end of June 2023, the total debt stock of public entities (SOEs and EBUs) *including on-lent loans* stood at UGX 10,309.02 billion (USD 2.811 billion), representing a 6.6% increase from the previous year's figure of UGX

¹ This figure excludes UGX 8,157.4 billion worth of GoU on-lent loans as they are already captured as GoU's debt and are serviced by GoU, rendering them a realized—not contingent—liability.

9,673.7 billion (USD 2.64 billion) (see Table 6). This rise can be primarily attributed to disbursements made on newly acquired loans, as well as on existing loans, which more than offset the repayments made during the same period.

Table 6: Non-Guaranteed Debt and Other Liabilities of SoEs and EBU's

<i>All in UGX Million</i>	Financial Year / UGX	
	June 2023	June 2022
Domestic Borrowing	224,032	158,485
External Borrowing	304,122	181,206
Other debt (including lease contracts and overdrafts)	1,623,489	1,566,245
GoU On-Lent	8,157,378	7,767,721
Total outstanding debt excluding GoU on-lent loans	2,151,643	1,905,936
Total debt including GoU on-lent loans	10,309,021	9,673,657
Debt ratio (Total debt/total assets)²	17.61%	24.23%
Liabilities from grants and GoU contributions	1,467,105	1,255,337

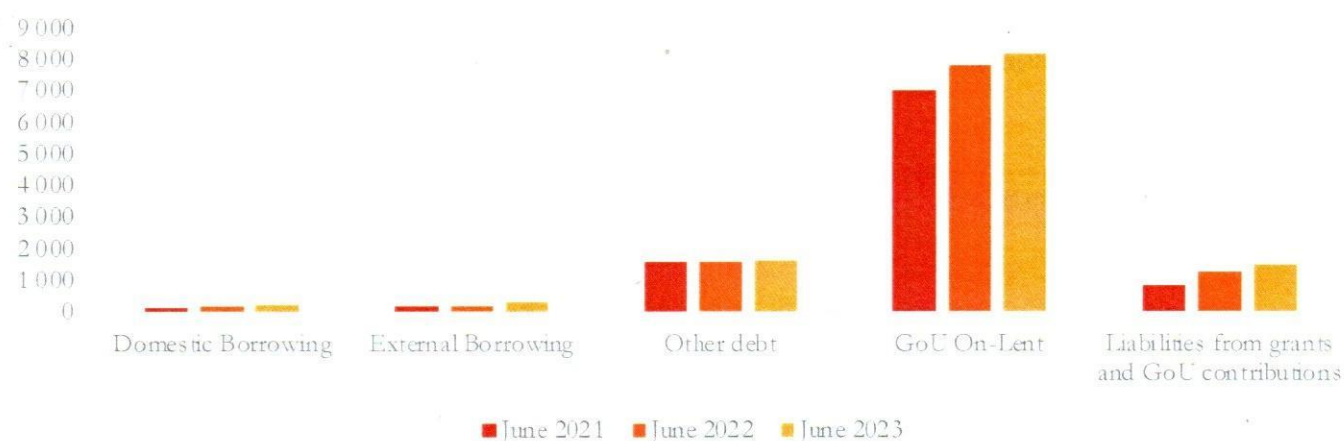
Source: MoFPED

3.3 GRANTS AND GOVERNMENT OF UGANDA CONTRIBUTIONS

At the end of June 2023, the liabilities of public entities, arising from subsidies, grants, and contributions from the Government of Uganda, totalled UGX 1,467 billion. This represents a 16.9 percent increase from UGX 1,255.3 billion at the end of June 2022. Notably, the average reliance of these public entities on these central government financial sources decreased significantly, from 13 percent in June 2022 to 3 percent in June 2023. Additionally, there was a marginal increase in the proportion of loss-making public entities, which rose by 0.5 percent, amounting to 23.4 percent of the total entities analysed.

² This was calculated for entities with debt.

Figure 3: Debt and Other Liabilities of SoEs and EBU (UGX billion)



Source: MoFPED

3.4 AUTHORIZATIONS TO BORROW

According to Section 66 of the Public Finance Management Act 2015 as amended, no public entity is allowed to raise a loan or issue a guarantee without the prior approval of the Minister responsible for Finance. As such, the Minister approves the borrowing by entities that are deemed to have good credit quality, i.e., are capable and willing to repay the loan for which they seek permission to acquire.

In FY 2022/2023, approvals amounting to UGX 38,215,903,200 were issued to different entities on top of previously issued outstanding loans. Within this period, 8 entities completed servicing their loans and remaining 13 entities were fully compliant with their obligations, except for Masaba Secondary School that indicated inconsistency in meeting their loan obligations. However, the risks attributed to such cases are fully borne by the Board of Governors of the institution, as well as the creditor. This is clearly communicated in every authorization issued to these entities. Below is a list of institutions that were authorized to borrow with their outstanding loans as of December 2023, which amount to a total of UGX 150,494,191,83

Table 7: List of Institutions Authorized to Borrow with Outstanding Loans

No.	Borrower	Date of Signature	Lender	Purpose	Amount (Ugx)	Outstanding as of December 2023	Comments
1	Buckley High School	01/09/2020	Stanbic bank	Purchase of bus	188,310,000	85,617,921	Payments are done on a termly basis with sums of UGX 22,000,000 million and are scheduled to be completed by March 2025. Repayment on schedule.
2	Kitante hill School	29/01/2020	Stanbic bank	Purchase of bus	467,680,000	272,809,861	Payments of UGX 63,000,000 million on schedule per term. Repayment on schedule.
3	Masaba Secondary school	19/12/2018	Stanbic bank	Purchase of bus	275,000,000	230,000,000	Servicing is on a quarterly basis, payments are not always on time and also sometimes incomplete. Repayments not on schedule.
4	Our Lady of Good Counsel S.S.S Gayaza	10/05/2017 12/03/2019	Centenary bank	Construction	2,900,000,000	1,891,532,000	Payment was disrupted by covid-19 but servicing has since resumed as scheduled on a termly basis. Repayment on schedule.
5	St. Mary's College Kisubi	18/10/2018	Centenary bank	Construction, repairs, rollover	4,000,000,000	1,900,000,000	Repayment is on termly basis with payments of UGX 166,000,000 million. Repayment on schedule.
6	Uganda College of Commerce Aduku	03/12/2019	Stanbic bank	Purchase of bus	506,000,000	435,282,215	Payment of installments reduced due to a reduction in the number of students since covid-19 pandemic.
No.	Borrower	Date of Signature	Lender	Purpose	Amount (Ugx)	Current Outstanding as of December 2023	Comments

7	Hoima school of Nursing	28/09/2022	KCB	Property purchase	2,470,000,000	1,742,000,000	Repayment on schedule.
8	Tororo Girls School	22/08/2023	Housing Finance Bank	Construction	3,700,000,000	1,633,000,000	Newly acquired loan being disbursed in tranches of UGX 1,800,000,000 billion/ payment as per disbursed is on a termly basis. Repayment on schedule.
9	National Water and Sewerage Corporation	20/12/2019	Equity Bank	Address urgent water challenges	50,000,000,000	26,497,233,000	Repayment on schedule.
10	National Water and Sewerage Corporation	28/01/2022	HFBU/ADB	Priority water intervention projects	95,000,000,000	57,504,700,000	Repayment on schedule.
11	Uganda Electricity Distribution Company Limited	13/02/2023	UDBL	Expansion of Pole plant at Kyampisi	7,045,903,200	0	Undisbursed yet.
12	Uganda Electricity Generation Company Limited	30/03/2023	Stanbic Bank	Operations for Nalubaale at end of Concession	10,000,000,000	0	Undisbursed yet.
13	Pride Micro Finance Limited (MDI)	05/04/2022 and 14/06/2023	East African development Bank, Financial sector deepening (FSD), aBi Finance, Stanbic bank, French Development Agency (AFD).	Operations	73,107,200,000	58,302,016,840	Repayment on schedule.
Total					249,660,093,200	150,494,191,837	

3.5 NON-GUARANTEED DEBT AND OTHER LIABILITIES OF LOCAL GOVERNMENTS

The debt level of local governments in Uganda experienced a reduction from UGX 54.9 million in June 2022 to UGX 16.9 million in June 2023. As of the end of June 2023, the total liabilities of Local Governments, encompassing both current and pension liabilities, stood at UGX 48,878 million. This represents a 14% decrease from the previous fiscal year's UGX 56,594 million. The decrease is mainly attributed to a decline in pension liabilities and other contingent liabilities associated with Local Government. Based on these figures, it is evident that the fiscal risk posed by Local Government debt is significantly lower in comparison to the risks from guarantees, state-owned enterprises, and extra budgetary units.

Table 8: Contingent Liabilities Arising from Local Governments

<i>All in UGX Millions</i>	June 2023 (UGX millions)	June 2022 (UGX millions)
Domestic loans	16.9	54.9
External loans	-	-
On-lending	-	-
Total outstanding debt including GoU on-lent	16.9	54.9
Current liabilities (including payables)	29,829	24,338
Other debts (including lease contracts and overdrafts)	-	-
Other LG contingent liabilities	6,492	8,562
Capital grants	-	-
Pension liabilities	12,541	23,638
Total (Implicit contingent liabilities)	48,878	56,594

Source: MoFPED

4. CONTINGENT LIABILITIES ARISING FROM LEGAL PROCEEDINGS

Contingent liabilities due to legal proceedings are a major risk factor for government bodies. These liabilities are potential financial obligations that might result from unsettled legal disputes or the outcomes of legal cases, with their true scale only becoming clear once the legal process is complete. Legal disputes can arise from a variety of sources, such as disagreements over contracts, breaches of regulatory standards, or accusations of negligence. Resolving these disputes can have significant financial repercussions for the government.

The unpredictable nature of legal verdicts and the possibility of incurring substantial financial losses mean that these contingent liabilities are a serious threat to the financial stability and budgetary planning of governments. Historically, they have also been a key factor in the accumulation of arrears, adding to fiscal strain and obstructing effective management of public finances. Therefore, it is essential for government bodies to actively manage and reduce these risks through comprehensive legal strategies, adherence to compliance standards, and effective contingency planning to prevent negative financial impacts.

According to the Consolidated Financial Statement of the Government of Uganda (GoU) for the fiscal year 2020/21, there has been a significant rise in contingent liabilities due to legal proceedings, reaching UGX 4.41 trillion by the end of June 2023. This amount marks a considerable increase of 14.3% compared to the previous fiscal year, where such liabilities were at UGX 3.9 trillion at the end of June 2022. An analysis of the overall exposure indicates that these contingent liabilities predominantly arise from internal sources within various Ministries, Departments, and Agencies (MDAs). This marked increase highlights the escalating financial risks that legal proceedings are bringing to the government's fiscal stability and its ability to manage its budget effectively.

5. CHALLENGES MET DURING THE FIELDWORK

5.1 CHALLENGES

The auditing process for the fiscal year 2022/23 encountered challenges in gathering some financial statements, as many institutions faced delays in finalizing their audits with the Auditor General. This has been an ongoing issue, with such delays preventing numerous institutions from providing the required information by the set deadlines.

5.2 RECOMMENDATIONS

To address the challenges faced during the auditing process for the fiscal year 2022/23, where delays in finalizing audits with the Auditor General led to difficulties in gathering financial statements, the following tailored recommendations are proposed:

1. Enhance the report to cover a more extensive array of explicit and implicit contingent liabilities. This expansion should include guarantees against trade and exchange rate fluctuations, power purchase agreements (PPAs), and various state insurance schemes (e.g., deposit, crop and flood, and war-risk insurance), along with liabilities from environmental disasters or banking failures exceeding state insurance protections.
2. Given the ongoing challenges, there's a critical need for developing expertise in fiscal risk analysis, with a special emphasis on contingent liabilities. This will aid in navigating and mitigating delays in audit finalizations by providing more nuanced insights into potential fiscal risks.
3. Pay particular attention to Public-Private Partnership (PPP) projects initiated before the PPP Act of 2015. These projects require a detailed examination to identify any contingent liabilities that could pose fiscal risks to the Government, ensuring that these risks are mitigated in light of audit delays.
4. Engage the Directorate of Debt and Cash Policy (DDCP) in creating feasibility studies for ongoing and prospective PPP projects. This involvement is crucial for ensuring that initial assessments are conducted timely and thoroughly, facilitating the identification and study of contingent liabilities and associated fiscal risks amidst audit delays.

ANNEX 1: LIST OF SOES AND EBUS INCLUDED IN THE CONTINGENT LIABILITIES FIELDWORK EXERCISE

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
Uganda National Council of Science and Technology
National Library of Uganda
Uganda National Examinations Board (UNEB)
Energy and GoU guarantees
Atomic Energy Council
Uganda Electricity Distribution Company Limited
Uganda Electricity Generation Company Limited
Uganda Electricity Transmission Company Limited
Uganda Petroleum Institute Kigumba
Electricity Regulatory Authority
IUIU
UDBL
Financial
Bank of Uganda
Housing Finance Bank
Insurance Regulatory Authority
National Social Security Fund
Post Bank Uganda
Pride Microfinance Uganda Limited
Capital Markets Authority
Uganda Investment Authority
Uganda Retirement Benefits Regulatory Authority
Information and Communications Technology
Uganda Broadcasting Corporation
Uganda Communications Commission
Uganda Property Holdings Limited
Uganda Export Promotion Board
Uganda Railway Cooperation
National Water and Sewerage Corporation

Posta Uganda
Uganda Tea Development Authority
Uganda Printing and Publishing Corp
New Vision Printing & Publishing Corp
Tourism
Uganda Railways Corporation
Uganda Tourism Board
Nile Hotel International ltd
Uganda National Cultural Centre
Uganda Wildlife Authority
Uganda Wildlife Education Centre
Uganda Cranes Limited
Gender
Uganda National Council for Disability
Uganda National Youth Council
National Council for Children
Uganda Property Holdings Ltd
Uganda Air Cargo
National Housing and Construction company
Uganda National Council for Women
Health
Uganda Medical and Dental Practitioners Council
Uganda Pharmaceutical Society
National Medical Stores
Joint Clinical Research Centre
Uganda Trypanosomiasis Control Council
Uganda Virus research Institute
Uganda Cotton Development Organization
Uganda National Chambers of Commerce
Uganda Livestock Industries
Uganda National Health Research Organization
Engineers Registration Board

ANNEX 2: LIST OF ENTITIES INCLUDED IN THE CONTINGENT LIABILITIES FIELDWORK EXERCISE

Arua	Kasese	Nakasogola
Budaka	Katakwi	Namutumba
Bududa	Kayunga	Nebbi
Bugiri	Kiboga	Ngora
Bukedea	Kibuku	Ntungamo
Bukomansimbi	Kisoro	Omoro
Buikwe	Koboko	Otuke
Bulambuli	Kole	Oyam
Bundibugyo	Kyankwanzi	Pader
Busia	Kyenjojo	Pakwach
Busitema University	Kyotera	Pallisa
Butaleja	Lira	Rubanda
Butambala	Lira University	Rubirizi
Dokolo	Luwero	Rukungiri
Gomba	Lwengo	Sembabule
Gulu	Manafawa	Serere
Gulu University	Maracha	Sheema
Iganga	Masaka	Sironko
Isingiro	Masindi	Soroti
Jinja	Mbarara	Soroti University
Kabale	Mbarara University	Tororo
Kabale University	Mbale	Wakiso
Kaliro	Mitooma	Yumbe
Kalungu	Mubende	Zombo
Kamuli	Mukono	
Kanungu	Muni University	