



Transparency of Loans to Uganda

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14 May 2019

Question

Please provide a summary of published research on the transparency of loans to Uganda and about concerns around corruption associated with different providers of debt (multilateral agencies, different bilateral providers, and bank lending).

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The K4D helpdesk service provides brief summaries of current research, evidence, and lessons learned. Helpdesk reports are not rigorous or systematic reviews; they are intended to provide an introduction to the most important evidence related to a research question. They draw on a rapid desk-based review of published literature and consultation with subject specialists.

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1. Summary

This report focuses on transparency and accountability of debt from both the lender's and the borrower's perspectives. Section 2 outlines what transparency entails with regard to borrowers and lenders with a particular focus on the transparency of Ugandan debt. Section 3 focuses on accountability with regard to debt, looking particularly at risks associated with certain types of loans and lenders, and honing in on a select number of issues with particular relevance to the Ugandan context.

Key findings from the report include:

- Transparency – accurate, comprehensive, and available data – concerning debt plays a critical role in ensuring good lending and borrowing practices.
- Evidence suggests that higher levels of fiscal transparency, including information related to debt, provided by a country are associated with lower interest rates and, consequently, with less costly debt.
- Debt transparency has received heightened policy attention in recent times, notably by the international community through the Addis Ababa Action for Financing for Development, by the G20, and by international financial institutions.
- Uganda's debt transparency has been assessed by a number of institutions and features in various country-comparative indices. All in all, the data suggests that the country is doing comparatively well with regard to its debt transparency.
- Lenders have a role to play in ensuring responsible debt management through providing transparency around procurement of projects financed by their loans. Uganda's main lenders differ considerably in their general level of transparency, and none of the main lenders rate highly on procurement-related transparency. The World Bank is currently trialling a transparency initiative based on providing beneficial ownership information in relation to procurement.
- The World Bank and the IMF are the main providers of international debt-related data and country analyses. Weaknesses in this data relates particularly to the uneven reporting on private sector external borrowing. There have been calls for improving debt-related data, including the development of an international central data registry on debt.
- Media in Uganda has reported on a number of controversial loans and debt management practices in the country, especially with regard to infrastructure loans financed by China. Concerns about a lack of transparency and accountability have also been raised in relation to the financing of a hospital in Kampala.
- Some Ugandan individuals and companies have been placed on the World Bank's sanctions list for fraud and corruption-related offences in relation to previous World Bank-financed projects in Uganda. Operating and adhering to such a sanctions list is one way in which lenders can help contribute to corruption-free finance.

Much of the analysis in this review is based on information concerning debt transparency practices by borrowers and lenders found in country-comparative indices, assessments and international databases. The analysis also relies heavily on media reports and other grey literature, including from international financial institutions and advocacy organisations that focus on debt management, budget transparency and aid transparency.

2. Transparency of lending and debt

Transparency – accurate, comprehensive, and available data – is a cornerstone in sound borrowing and lending practices, playing a critical role in ensuring effective risk assessment to support sustainable borrowing and lending practices. Policy-makers in debtor countries require good information about loans and debt to make informed and appropriate borrowing decisions. Recent cases of hidden debt, including the case of Mozambique which will be discussed below, demonstrate the adverse social, economic, and political consequences borrowers can face in the absence of reliable and available debt information. Creditors, donors, analysts, and rating agencies also require good information about debt to make accurate assessment of sovereign financing needs and creditworthiness, and to appropriately price debt instruments. Finally, the public requires this information to hold the government accountable for its fiscal management, and to enable citizens to participate more actively in governance, potentially reducing corruption (World Bank Group; International Monetary Fund, 2018a and 2018b).

The Jubilee Debt Campaign puts the importance of transparency in the following way:

Transparency of debt information is good for everyone. It gives lenders more certainty about the basis upon which they are lending, it gives borrowers lower interest rates, and it allows citizens to subject lending and borrowing by their governments to more scrutiny, including through holding public debt audits into borrowing and lending decisions. Such scrutiny is vital to ensure loans to governments are used well so that the Sustainable Development Goals can be met (Jubilee Debt Campaign, 2019: 1).

Transparency concerning debt has received some attention in academic literature. This literature has found a positive association between greater transparency and less burdensome debt. Bastida et al (2017) found in their cross-country quantitative analysis that better fiscal transparency is associated with a lower cost of sovereign debt. This is because transparency reduces information asymmetries between governments and financial markets, which, in turn, reduces the uncertainty around financial decision-making, including about potential irregularities. In turn, improved certainty leads the financial markets to request a lower interest rate, and consequently, it decreases the cost of debt.

A recent IMF working paper (Kemoe and Zhan, 2018) similarly found positive association between a country's level of fiscal transparency and their borrowing costs. Using data from 33 emerging and developing countries, the authors found that greater transparency (measured using three different dimensions: openness of the budget process, fiscal data transparency, and accountability of fiscal actors) reduces sovereign interest rate spreads. For the emerging markets group of countries, the availability of detailed cross-country comparable fiscal data was also found to increase foreign investors' willingness to hold the sovereign debt of this group of countries.

The transparency of debt information has also received policy attention in recent times. According to a joint report by the World Bank and the IMF, transparency concerning debt has

become more pressing in the context of a changing creditor and instrument landscape, combined with an increase in off-balance sheet transactions (World Bank Group; International Monetary Fund, 2018a: 5). In April 2019, in his first public appearance as World Bank president, David Malpass highlighted debt transparency: stating that debt could help countries improve their economic performance but it would be a drag on growth if not transparent. He pointed to indications that there are 17 African countries at high risk of debt distress, and argued that this is a growing number as new contracts come in that are not transparent (Elliott, 2019).

Action in the area of debt transparency is also playing a part in the international community's commitments under the Addis Ababa Action Agenda for Financing for Development, which states:

We recall the need to strengthen information-sharing and transparency to make sure that debt sustainability assessments are based on comprehensive, objective and reliable data (United Nations, 2015, paragraph 97).

Transparency of debt: the case of Uganda

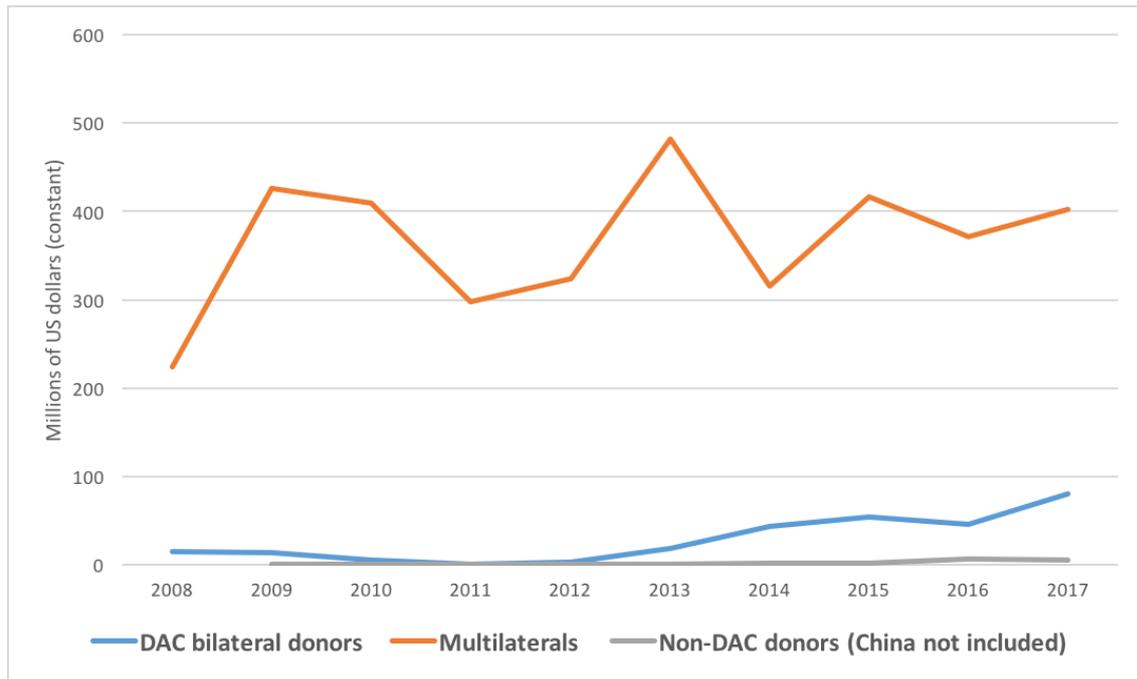
For a borrowing country, like Uganda, ensuring debt transparency requires having a well-functioning public debt recording, monitoring and reporting system in place. Such a system can be used by policy-makers to make informed financial decisions, by national parliaments to approve borrowing plans, and by the public to fulfil its accountability role. This section will build a picture of Uganda in terms of its debt management, fiscal transparency, and transparency concerning debt based on a number of publicly available analyses and ratings.

Historically, Uganda has had a poor record regarding public debt management, which in the 1990s resulted in Uganda qualifying for debt relief worth USD 2 billion through the Highly Indebted Poor Countries initiative. Uganda's public debt has gradually increased in recent times. At the end of 2017, total public debt was estimated at USD 10.3 billion, equivalent to 40 percent of GDP. This compares to 17 percent of GDP in 2006 (MEFMI, 2018). Out of this aggregate debt, external debt accounts for just over 60 percent and domestic debt just under 40 percent. Interest payments on this debt accounted for the largest share of the domestically funded budget in 2017/18 (and third largest share of the overall budget) (Ssempala, no date: b; c).

The recent increase is mainly made up of borrowing from China. In the period 2010-2016, the Ugandan government signed 96 loan agreements worth USD 8.8 billion with China (Ssempala, no date: a). Other large lenders to Uganda consist of international financial institutions, notably the World Bank's International Development Association and the African Development Bank. Bilateral DAC donors play a much smaller role as lenders to Uganda, with France, Japan and South Korea being the main bilateral lenders based on disbursed ODA loans. Loans provided to Uganda over time and by type of institution are illustrated in figures 1 and 2 below.¹

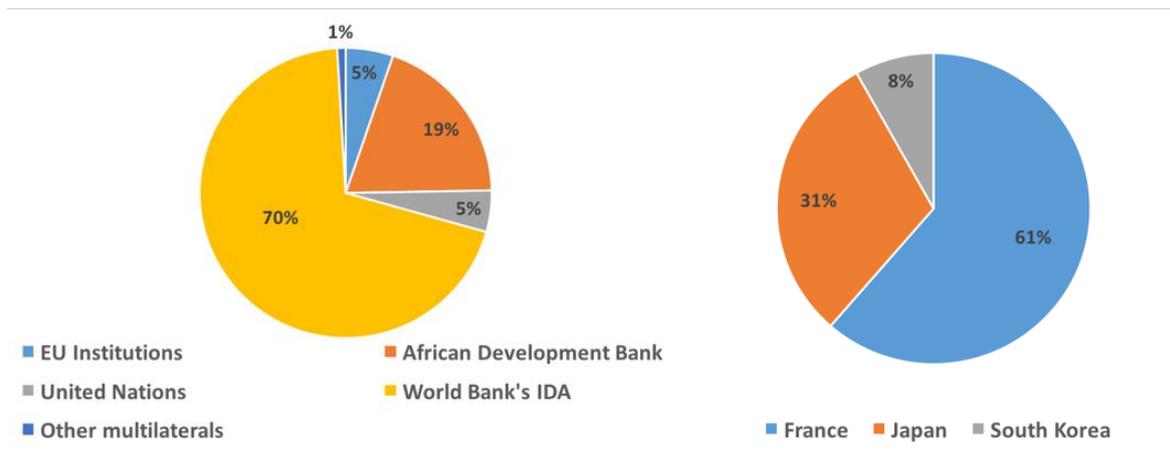
¹ Note that data on Chinese loans to Uganda are not illustrated due to the absence of this information in the OECD's Creditor Reporting System.

Figure 1: ODA loans to Uganda (2008-2017) by type of lender



Source: OECD (2019), OECD's Creditor Reporting System, retrieved from <https://stats.oecd.org/Index.aspx?DataSetCode=crs1> [14/05/2019]

Figure 2: Main multilateral and bilateral lenders to Uganda in 2017 (based on gross disbursement of ODA loans)



Source: OECD (2019), OECD's Creditor Reporting System, retrieved from <https://stats.oecd.org/Index.aspx?DataSetCode=crs1> [14/05/2019]

In Uganda's system for managing debt, two laws are of particular significance. First is the Public Finance Management Act from 2015. Part VI – *Public debt, Grants and Guarantees* – sets out the responsibilities and procedures related to external debt.

Under Art. 42 (Management of public debt), 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. The report shall indicate the management of the public debt,

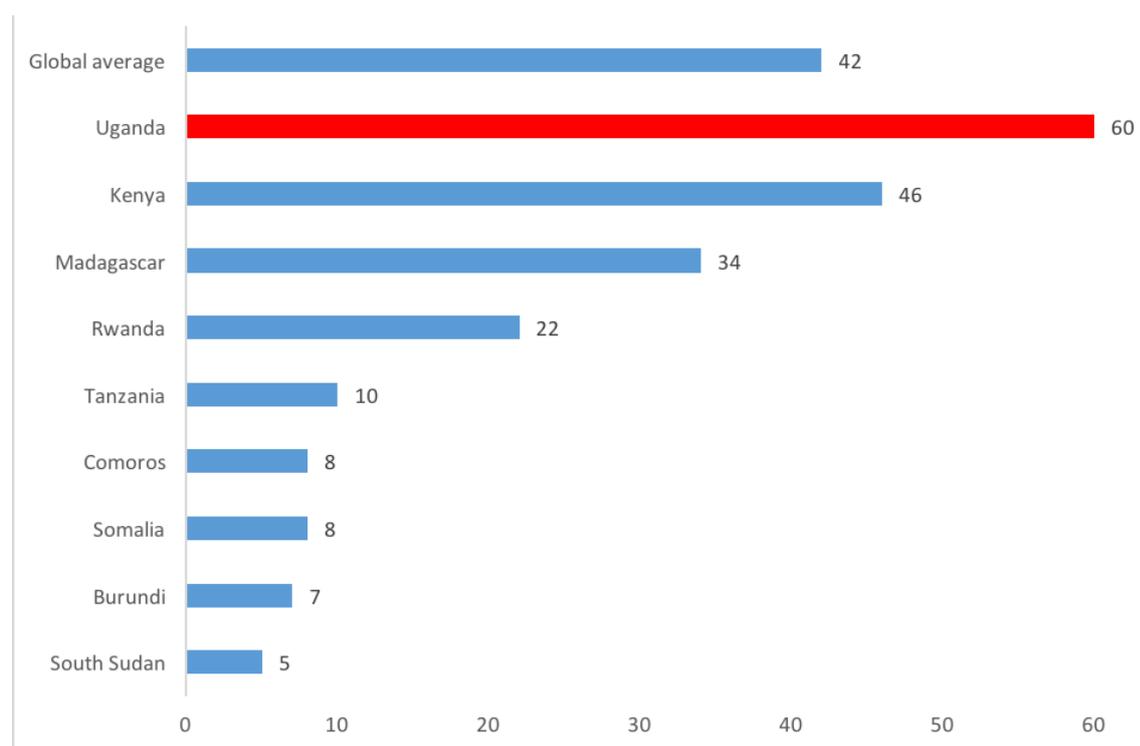
guarantees, and the other financial liabilities of Government against the National Development Plan, the objectives of the Charter for Fiscal Responsibility, and the medium-term debt management strategy. The Minister shall cause to be published, through the appropriate means, the report on the management of the public debt, guarantees, and the other financial liabilities of Government. (Government of Uganda, 2015: 43).

Apart from the last sentence (the Minister shall cause to be published...) there is no indication of transparency of debt information being enjoyed by the wider public.

The second relevant law is the 2003 Public Procurement and Disposal of Public Assets Act. According to an assessment by the African Development Bank, Uganda has a robust regulatory and institutional framework for public procurement, which in the last 10 years has focused on enhancing transparency and accountability, building capacity of the various stakeholders and monitoring compliance with set standards (African Development Bank, 2017: XLIV).

A number of assessments and cross-country comparable ratings exist regarding fiscal transparency, including debt, in Uganda. The 2017 Open Budget Index scores Uganda comparatively high in terms of overall fiscal transparency compared to other countries, as illustrated in figure 3 below.

Figure 3: Budget transparency in Uganda compared to other countries



Source: International Budget Partnership (2017). *These materials were developed by the International Budget Partnership. IBP has given us permission to use the materials solely for non-commercial, educational purposes.* Retrieved from <https://www.internationalbudget.org/wp-content/uploads/uganda-open-budget-survey-2017-summary.pdf> [14/05/2019]

The Open Budget Survey, on which the Open Budget Index is based, contains nine survey questions specifically related to transparency of debt and loans. Uganda's assessment is

presented in table 1 below, and shows that debt information is available in various budget reports, at least to some degree. For the nine survey questions, Uganda received four Bs, four Cs and one D on an A-D rating.

Table 1: Uganda’s fiscal transparency rating

<i>Type of budget document</i>	<i>Survey question</i>	<i>Survey score (from A to D)</i>	<i>Score qualifying response</i>
Executive Budget Proposal	<i>Question 13:</i> Does the Executive’s Budget Proposal present three estimates related to government borrowing and debt: the amount of net new borrowing required during the budget year; the total debt outstanding at the end of the budget year; and interest payments on the debt for the budget year?	B	Yes, two of the three estimates related to government borrowing and debt are presented.
Executive Budget Proposal	<i>Question 14:</i> Does the Executive’s Budget Proposal present information related to the composition of the total debt outstanding at the end of the budget year? (The core information must include interest rates on the debt instruments; maturity profile of the debt; and whether it is domestic or external debt.)	C	Yes, information is presented, but it excludes some core elements.
Executive Budget Proposal	<i>Question 31:</i> Does the Executive’s Budget Proposal present information on government borrowing and debt, including its composition, for the year preceding the budget year (BY-1)? (The core information must include the total debt outstanding at the end of BY-1; the amount of net new borrowing required during BY-1; interest payments on the debt; interest rates on the debt instruments; maturity profile of the debt; and whether it is domestic or external debt.)	B	Yes, the core information is presented for government debt.
Pre-Budget Statement	<i>Question 57:</i> Does Pre-Budget Statement present three estimates related to government borrowing and debt: the amount of net new borrowing required during the budget year; the total debt outstanding at the end of the budget year;	B	Yes, two of the three estimates related to government borrowing and debt are presented.

and interest payments on the debt for the budget year?

Enacted Budget	<i>Question 63:</i> Does the Enacted Budget present three estimates related to government borrowing and debt: the amount of net new borrowing required during the budget year; the total debt outstanding at the end of the budget year; and interest payments on the debt for the budget year?	B	Yes, two of the three estimates related to government borrowing and debt are presented.
In-Year Reports	<i>Question 74:</i> Do In-Year Reports present three estimates related to actual government borrowing and debt: the amount of net new borrowing; the total debt outstanding; and interest payments?	C	Yes, one of the three estimates related to government borrowing and debt are presented.
In-Year Reports	<i>Question 75:</i> Do In-Year Reports present information related to the composition of the total actual debt outstanding? (The core information must include interest rates on the debt instruments; maturity profile of the debt; and whether it is domestic or external debt.)	C	Yes, information is presented, but it excludes some core elements.
Mid-Year Review	<i>Question 83:</i> Does the Mid-Year Review of the budget include updated estimates of government borrowing and debt, including its composition, for the budget year underway?	D	No, estimates of government borrowing and debt have not been updated.
Year-End Report	<i>Question 90:</i> Does the Year-End Report present the differences between the original estimates of government borrowing and debt, including its composition, for the fiscal year and the actual outcome for that year?	C	Yes, estimates of the differences between some but not all of the original estimates of government borrowing and debt for the fiscal year and the actual outcome for that year are presented.

Source: International Business Partner (2018). *These materials were developed by the International Budget Partnership. IBP has given us permission to use the materials solely for non-commercial, educational purposes.* Retrieved from <https://www.internationalbudget.org/wp-content/uploads/uganda-open-budget-survey-2017-summary.pdf> [14/05/2019]

The World Bank has also conducted a number of assessments on Uganda related to transparency and management of debt. Overall, the assessments are relatively positive with regard to Uganda's transparency and broader management of its debt. A 2018 World Bank's

Debt Management Performance Assessment (DeMPA) of Uganda was undertaken at the request of its Ministry of Finance, Planning, and Economic Development, against a background of recent increases in Uganda’s public debt. Noted in the assessment was that Uganda has implemented several debt management reforms in recent years. These have improved debt management although there are still areas where further reforms are required (MEFMI, 2018).

The World Bank’s Public Expenditure and Financial Accountability (PEFA) Assessment rates countries based on fiscal transparency, including debt. The latest PEFA report based on a 2016 assessment gave Uganda top ratings on the indicators linked to debt reporting and management as shown in table 2 below.

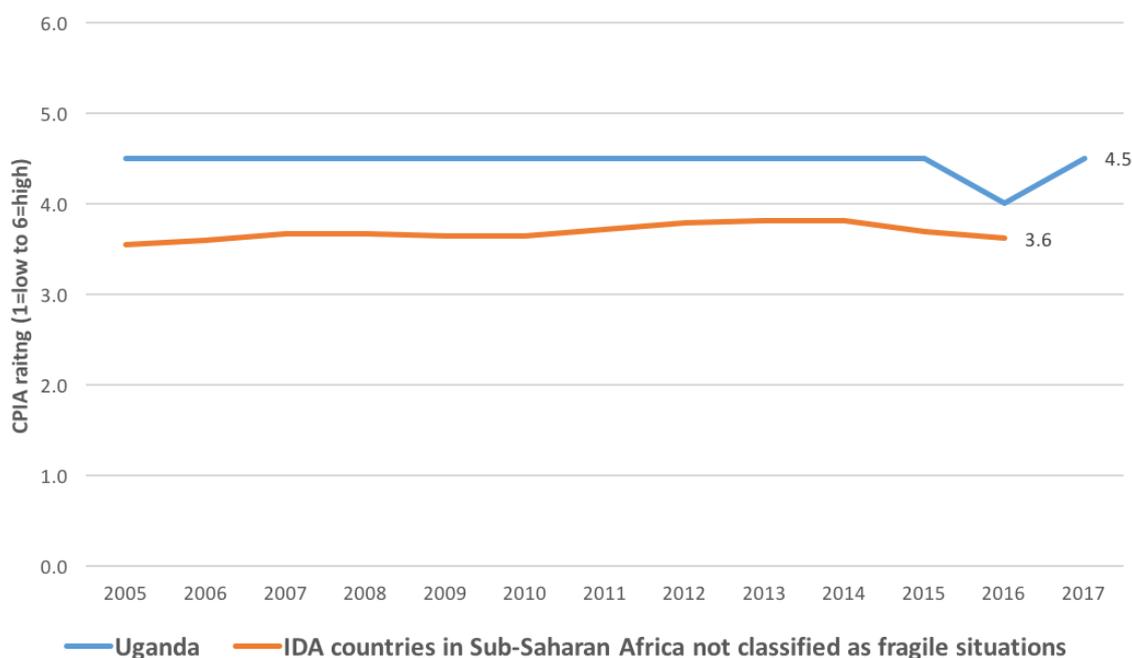
Table 2: Assessment of Uganda’s debt management

	Score	Explanation
Debt management (indicator PI-13)	A	This aggregate indicator comprises the three sub-indicators below.
Recording and reporting of debt and guarantees	A	Domestic and foreign debt and guarantees are complete, accurate and updated monthly. There are comprehensive management and statistical reports, which are produced quarterly and cover debt service, stock and operations.
Approval of debt guarantees	A	The law provides that only a minister of the Ministry of Finance, Planning and Economic Development (MoFPED) can contract debt of guarantees, according to published policies and procedures, which include reporting and monitoring responsibilities. All debt and guarantees are approved by the legislature on an annual and ad hoc basis.
Debt management strategy	A	MoFPED has a 5-year published debt management strategy (DMS) updated each year, covering existing and projected debt, target ranges for interest rates, refinancing and foreign currency risks. It also annually reports on adherence to DMS objectives and provides the report to the legislature. The annual plan is consistent with the DMS.

Source: Government of Uganda (2017: 36), Uganda Public Expenditure and Financial Accountability (PEFA) Assessment 2016. <http://beta.pefa.org/sites/default/files/assessments/reports/UG-Dec17-PFMPR-Public-with-PEFA-Check.pdf>. Licensed under Creative Commons Attribution license (CC BY 3.0 IGO) [14/05/2019]

Finally, the World Bank’s Country Policy and Institutional Assessment (CPIA) includes a country rating on the quality of debt policy and management.² This indicator assesses whether a country’s debt management strategy is conducive to ensuring medium-term debt sustainability and minimising budgetary risks. As indicated in figure 4 below, Uganda has received an almost constant rating of 4.5 (on a scale of 1=low to 6=high). This is a relatively high score compared to other countries similar to Uganda (grouped as ‘IDA countries in sub-Saharan Africa not classified as fragile situations’).

Figure 4: Uganda’s CPIA debt policy and management ratings (2005-2017)



Source: World Bank (2018c). World Bank’s Country Policy and Institutional Assessment (CPIA), retrieved from <https://datacatalog.worldbank.org/dataset/country-policy-and-institutional-assessment>. This dataset is licensed under **CC-BY 4.0** [14/05/2019]

Transparency in lending

Whereas ensuring transparency concerning debt is primarily the responsibility of borrowing governments, lenders, as will be discussed in this section, also have a role to play in providing debt related information.

Transparency in procurement

Lenders have an important role to play in ensuring that funds are lent and contracted responsibly: transparency is a key aspect of this. According to the Jubilee Debt Campaign (2019: 2), a government’s willingness to disclose the loans it contracts should be a key factor in the lender’s due diligence and risk assessment process, and unwillingness to do so should be a clear warning sign that the loans are unlikely to benefit the people of the country concerned.

² The CPIA is annually updated and the last assessment took place in June 2018.

Lenders' and donors' general level of transparency is captured annually by Publish What You Fund's Aid Transparency Index. Figure 5 below shows the aggregate index score for Uganda's main lenders plus DfID in the latest Aid Transparency Index from 2018. As evident from this data illustration, Uganda's main multilateral lenders (World Bank IDA, African Development Bank) do far better in terms of transparency than its main bilateral lenders: China, in particular, scores far below the other donors with regard to overall transparency.

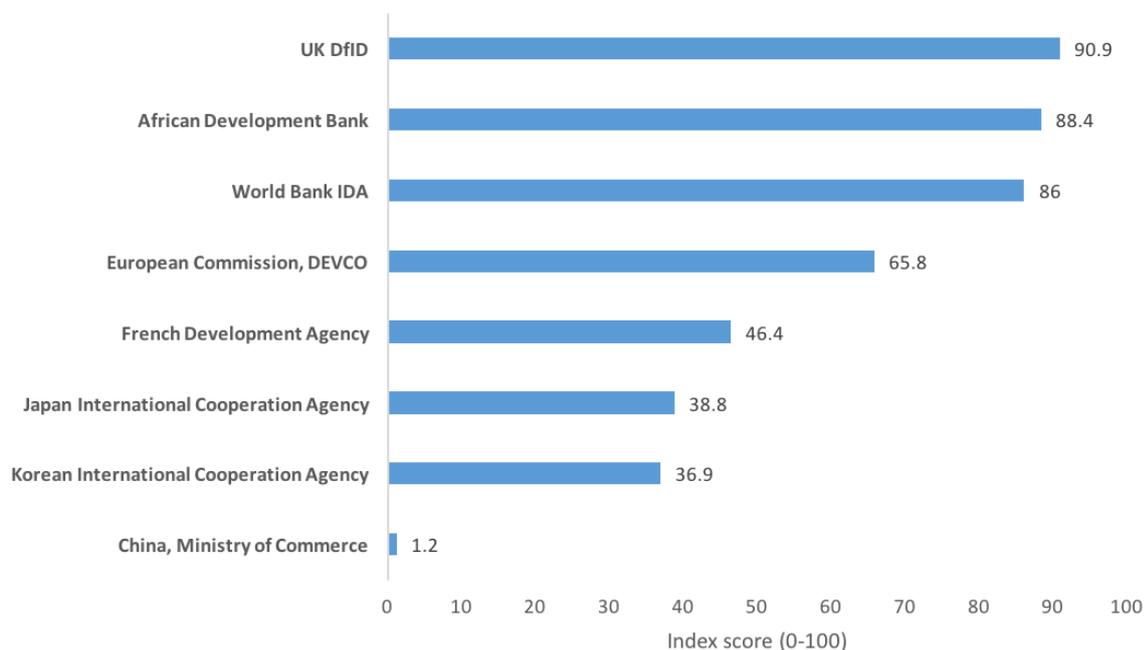
Various commentators have flagged the lack of transparency linked to infrastructure projects in developing countries financed by China. For example, Carmen Reinhart, Professor of International Financial Systems, states:

Over the past 15 years, China has fuelled one of the most dramatic and geographically far-reaching surges in official peacetime lending in history... But the size of this lending wave is not its most distinctive feature. What is truly remarkable is how little anyone other than the immediate players – the Chinese government and development agencies that do the lending and the governments and state-owned enterprises that do the borrowing – knows about it. There is some information about the size and timing of Chinese loans from the financial press and a variety of private and academic sources; but information about loans' terms and conditions is scarce to non-existent. Reinhart (2018: no page number).

Another commentator, Helmut Reisen from the OECD Development Centre, explains why transparency related to Chinese lending is sometimes difficult to provide:

China engages mostly in infrastructure for resource extraction, telecommunications and transport. As business is often operated on a barter basis, financial transparency is difficult to establish. Take the Angola Mode, where funds are not directly lent to the recipient country, but the Chinese government will mandate a Chinese construction company (that usually receives support credit from China Exim) to undertake the construction work after the approval of the recipient country. Then, in exchange for the infrastructure provision, the borrowing government will give to a Chinese company operating in the field of natural resources (mostly oil or minerals) the right to mine natural resources through acquisition of equity stakes in a national oil company or through acquiring licenses for production. (Reisen, 2014: 2).

Figure 5: General transparency level of Uganda’s main multilateral and bilateral lenders



Source: Publish What You Fund (2018a), retrieved from <https://www.publishwhatyoufund.org/the-index/2018/>. This work is licensed under a [Creative Commons Attribution 3.0 UK: England & Wales License](https://creativecommons.org/licenses/by/3.0/) [14/05/2019]

Lenders’ and donors’ practices with regard to procurement transparency is also captured in the Aid Transparency Index through responses to particular survey questions. The index contains two survey questions that especially concern transparency in relation to project procurement: (1) whether contracts are published³, and (2) whether the lender/donor publishes all tenders⁴ (Publish What You Fund, 2018b). Table 3 below shows the scores for Uganda’s main lenders plus DfID. According to this data, only Japan and Korea receive a positive score on procurement transparency.

³ Definition: The individual contract(s) signed with a company, organisation or individual that provides goods and services for the activity. This could be on a procurement section of the organisation’s website, on a separate website or on a central government procurement website. Contract documents cannot simply be at the country level.

⁴ Definition: Tenders are the individual contracts or proposals that have been put out to invite bids from companies or organisations that want to provide goods and services for an activity. They may be on a separate website, possibly on a central government procurement website.

Table 3: Procurement transparency across Uganda's main lenders

Lender	Is the contract for the activity published? <i>Publication status and scores (0-100)</i>	Does this organisation publish all tenders? <i>Publication status and scores (0-100)</i>
African Development Bank	Publication status not provided: 0	Publication status not provided: 0
European Commission, DG Development and Cooperation	Not published: 0	Sometimes published: 0
World Bank, International Development Association	Publication status not provided: 0	Publication status not provided: 0
China, Ministry of Commerce	Sometimes published: 0	Sometimes published: 0
French Development Agency	Not published: 0	Sometimes published: 0
Japan International Cooperation Agency	Always: 50	Always: 50
Korean International Cooperation Agency	Always: 50	Always: 50
UK Department for International Development	Publication status not provided: 0	Publication status not provided: 0

Source: Publish What You Fund (2018a), retrieved from <https://www.publishwhatyoufund.org/the-index/2018/>. This work is licensed under a [Creative Commons Attribution 3.0 UK: England & Wales License](https://creativecommons.org/licenses/by/3.0/) [14/05/2019]

There have in recent times been some strides to improve transparency related to procurement, notably by the World Bank. In 2015, the Bank agreed a reform to its procurement framework following years of reform efforts and an intense international advocacy campaign by Transparency International, Global Witness and others. On 8 June 2015, 107 civil society organisations signed a letter to the President of the World Bank urging the institution to increase the transparency and accountability of World Bank-funded procurements, in particular with regard to beneficial ownership transparency (Transparency International, 2015).

The World Bank's statement for the London Anti-Corruption Summit in May 2016 included a commitment to implementing a beneficial ownership requirement for World Bank projects. It stated that the Bank is implementing a three-year Beneficial Ownership Pilot Program requiring borrowers to publish online (and on the World Bank's website) beneficial ownership information (along with other contract award information) for winning bidders in procurement of high-value/complex contracts that exceed a certain threshold. These are then reviewed by the Bank's Operations Procurement Review Committee (World Bank, 2016). The World Bank reiterated this message in a follow-up statement in October 2018 (World Bank, 2018).

Collection and dissemination of debt-related data

Transparency concerning debt is a key factor enabling lenders to make accurate assessments of risk and to appropriately price debt instruments.⁵ For this they make use of information gathered and analysis conducted by international financial institutions, such as IMF and the World Bank.

Several debt databases have been developed and expanded over time reflecting the salience of debt data transparency. These include the Quarterly External Debt Statistics (QEDS), the Quarterly Public Sector Debt (QPSD) Statistics, the annual Government Finance Statistics (GFS), the International Financial Statistics (IFS), the Global Debt Database (GDD), the Joint External Debt Hub (JEDH), and the International Debt Statistics (IDS) (World Bank Group; International Monetary Fund, 2018b: 6-7).

However, a shortcoming of these debt databases is the uneven reporting by countries, particularly the reporting of private sector external borrowing as many countries struggle to monitor the external obligations of their private sector and subsequently do not collate this information or do not make it public. For example, only one third of the 59 International Development Association (IDA)-only countries report private non-guaranteed external debt (World Bank Group; International Monetary Fund, 2018b: 10). The Jubilee Debt Campaign describes the lack of disaggregate information in the following way:

Even when loans are included in the total debt figures reported by the government concerned, and by multilateral bodies such as the IMF and World Bank, details of individual loans are rarely disclosed on a disaggregated basis. If, for example, USD 1 billion is said to be owed to 'private companies', then parliaments, media and civil society cannot find out how many individual loans this consists of, who the debts are owed to, what the interest rates are and when payments on the debts are due. (Jubilee Debt Campaign, 2019: 2).

The aforementioned Addis Ababa Action Agenda for Financing for Development stated an invitation to relevant institutions to consider creating a central data registry, including information on debt restructurings (United Nations, 2015, paragraph 95). The G20 has called on the World Bank and IMF to collect data on debt to get a better handle on the amounts and loan conditions (Asia Times, 2019). In addition, a number of non-for-profit organisations, led by the Jubilee Debt Campaign, have recently called for a central registry of countries' debt to be developed. More specifically, these organisations call for information on loans to governments, or with any form of

⁵ International lenders to governments tend to be categorised in three groups:

A. Multilateral institutions: The IMF and World Bank, among others, including regional development banks such as the African Development Bank, or banks set up by groups of lending governments, such as the Arab Fund for Economic and Social Development.

B. Other governments: Traditionally Western governments have given loans in two forms, either classified as Official Development Assistance or through export credit agencies. New lenders such as China are now also responsible for significant amounts of loans.

C. The private sector: This includes loans by banks and commodity trading companies. Often loans by private companies will be sold on to other private companies, including hedge funds and vulture funds (Jubilee Debt Campaign, 2019: 3).

government guarantee, to be disclosed via a global publicly-accessible registry within 30 days of contract signature. The registry should include information about the value of the loan, fees, charges and interest, the law the debt is owed under, any available information on the use of proceeds and the payment schedule (Jubilee Debt Campaign, 2019).

Apart from collating internationally comparative data on countries' debts in the various databases mentioned above, the IMF and the World Bank also produce and disseminate analyses using the debt data collected. There are two principal forms of debt analysis supported by the IMF and the World Bank. The first is the Debt Sustainability Analysis (DSA), which is the main instrument for assessing the sustainability of a member country's fiscal and financing plans and its debt vulnerabilities. It is produced jointly by the IMF and the World Bank for low income countries. Published DSAs are widely accessed and used by various stakeholders in the international financial community. These include multilateral, bilateral, and commercial creditors, as inputs into their decisions to lend, as well as civil society in assessing the government economic policies. Among multilaterals, the Asian Development Bank, the Inter-American Development Bank, and the International Fund for Agricultural Development all use DSA ratings to help determine the mix between lending and grants, and the terms and conditions of their lending (World Bank Group; International Monetary Fund, 2018b: 14-18).

The second principal form of debt analysis is the Medium-Term Debt Management Strategy (MTDS). An MTDS is a plan that the government intends to implement over the medium term in order to achieve a desired composition of the government debt portfolio. As such, it operationalises country authorities' debt management objectives and captures their preferences with regard to its cost-risk trade-off. These MTDSs are published by country authorities and, as such, constitute financing roadmaps for policy-makers. They are also read and referenced by credit rating agencies and market researchers, and they can be seen as an accountability document for the general public (World Bank Group; International Monetary Fund, 2018b: 18-20).

3. Risks associated with loans and lenders

The role of transparency is to shed light on practices and behaviours, and in so doing, set current irregularities straight and deter future malfeasance. This section illustrates the importance of fiscal transparency through a number of debt-related controversies from Uganda and its neighbouring countries, and discusses one way by which lenders try to eliminate corruption within their projects.

Controversial loans in Uganda and beyond

In Uganda, there have been recent calls for concern about the lack of transparency in relation to the development of the Kampala-based International Specialized Hospital of Uganda at Lubowa. In 2014 the government approved the construction of the hospital and it was officially launched in 2016. Several issues concerning a lack of transparency of the procurement and financing of the project have been raised, and according to a spokesperson for the Uganda Debt Network, the project is shrouded in smoke. Concerns were raised when the government, through the Ministry of Finance and Ministry of Health, sought parliamentary approval and authorisation to issue promissory notes to a private company called FINASI/ROKO Construction SPV Limited for the financing of the design, construction and equipping of the hospital. The issuing of the promissory

notes in practice means that the government takes over the risks related to the project.⁶ It is not clear from the media articles written on the subject what kind of risk assessment and vetting was conducted on the part of the state before these promissory notes were issued. What is clear is that people have raised concerns about the fact that the private company in question is an opaque Special Purpose Vehicle, and that it did not win the contract in an open bidding or competitive process. In addition, queries have been voiced about the discrepancy between the USD 354 million budgeted for the project by the Ministry of Finance and USD 379 million promised in the promissory notes (Katusiime, 2019).

There are also concerns expressed in Ugandan media about the increasing involvement of China in Uganda's economy. China has in recent times become a major lender to Uganda, especially with regard to large infrastructure projects. China's Exim Bank has funded about 85 percent of two major Ugandan power projects — Karuma and Isimba dams. It also financed and built Kampala's USD 476 million Entebbe Express Highway to the airport. In addition, China's National Offshore Oil Corporation, France's Total, and Britain's Tullow Oil co-own Uganda's western oil fields, set to be tapped by 2021 (Athumani, 2019).

The concerns relate to the terms of the loans given by China, which various commentators fear are not favourable to Uganda. For example, the media reported a leaked letter from Uganda's Minister of Finance, Planning and Economic Development, Matia Kasaija, to President Museveni in which the minister stated three concerns he had about the terms related to a rural electrification loan (and five other already signed loans with similar conditions): China's insistence to supply all technology and materials for the project, its insistence that Uganda opens an escrow account in Beijing and deposits money as security in case of default, and the holding of national assets as collateral in case of loan payment failure (The Independent, 2019).

Concerns in the Ugandan media about Chinese loans can be placed in the context of wider debates about Chinese funding. For example, in 2017, Sri Lanka, struggling to pay back loans to state-owned Chinese firms, handed over a strategic port to China. Closer to Uganda, according to a leaked report, China was promised parts of Kenya's Mombasa Port as collateral for financing a USD 3 billion railway it built from the port to Nairobi. However, both Chinese and Kenyan officials have denied that the port's ownership is at risk. Similarly, the Zambian government has denied rumours that China was taking over Zambia's state power company due to unpaid debt (Athumani, 2019).

The Ugandan Debt Network also raises the concern that the loans from China are to be paid in a short period of time (averaging 10 years); yet they are invested in long term projects. This implies that if Uganda does not comply with its debt obligations, the country could undergo debt distress in the near future (Ssempala, no date: a).

Some sectors are inherently less transparent than others, the security sector being the opaqueness. Whereas Uganda has improved considerably with regard to fiscal transparency in recent years with opening up of government expenditure data through the World Bank BOOST project⁷ and

⁶ A promissory note is a financial instrument that contains a written promise by one party (the note's issuer or maker) to pay another party (the note's payee) a definite sum of money, either on demand or at a specified future date.

⁷ BOOST is a World Bank initiative launched in 2010 to facilitate access to budget data for improved decision-making processes, transparency and accountability.

the Uganda Open Data Portal, expenditures related to the security sector remain classified.⁸ It was security sector debt that caused the so-called Anglo-Leasing scandal, a large-scale corruption scandal in Kenya in 2006. The scandal concerned a contract awarded to a non-existing company, Anglo-Leasing, to produce passports for Kenya for USD 37 million; the nearest competitor had quoted USD 10 million for the same contract (Africa Confidential, 2006: a).

Following the suspension of donor support and growing insecurity in Kenya in 2001, the government approved a specific policy to lease finance or supplier's credit to finance priority security and security-related projects. Anglo-Leasing & Finance Limited was part of an organised, systematic and fraudulent scheme designed to defraud the government through the so-called special finance vehicles for purported security contracts. The salient features of these contracts were as follows: first, all contracts were supply-and-finance contracts in which the contractor was purportedly financed by external credit through lease finance.⁹ In reality, it was the government that willingly paid upfront for these projects. Second, most of the lease finance companies used in these contracts were considered to be non-existent. Third, security was used as an excuse to procure these contracts using single sourcing, even where the projects merely involved the postal services and meteorological department. Fourth, the effect of using non-competitive processes in procurement was over-pricing of the contracts (Mwangi, 2008: 274-75). The scandal prompted the dismissal of three Ministers in Kenya (Africa Confidential, 2006: b). According to a Government of Kenya report (2018: 24), it was a lack of transparency in the procurement and contracting of security related contracts that led to the scandal.

The final scandal to be mentioned here relates to the current debt scandal in Mozambique, which illustrates what can happen if the checks and balances that are supposed to be provided by a country's legislature get bypassed.

In 2013 and 2014, two London-based Credit Suisse subsidiary banks lent USD 2 billion to three state-owned companies in Mozambique, owed under English law. The loans were supposed to be used to develop a self-sustaining fishing programme, which never materialised. The loans were given a guarantee by the Mozambique Finance Minister, but this was not agreed by the Mozambique parliament, despite a requirement under the Mozambican Constitution. The loans only became public knowledge in 2016 after investigations by international journalists. Mozambique, which is one of the most indebted countries in the world, admitted in 2016 to billions of dollars of undisclosed borrowing. This sparked an economic and political crisis in the country.

In January 2019, three ex-Credit Suisse employees were arrested in London, the former Mozambique Finance Minister was arrested in South Africa, and a former employee of Prinvest, the contractor on the deal, was arrested in New York on allegations that USD 200 million had been taken from the loans to be spent on "bribes and kickbacks". In February 2019, Mozambique sued Credit Suisse in UK court over the bank's involvement in the debt scandal. The end product of this rogue lending and borrowing practices is that the people of Mozambique may have to pay

⁸ Expenditure data for Uganda is available from <http://uganda.opendataforafrica.org/> and <http://boost.worldbank.org/country/uganda> [14/05/2019]

⁹ Lease finance or supplier's credit is a concept based on prior supply of goods and services for later payment, subject to payment of a commitment fee.

well over USD 2 billion in loan and interest payments on a debt they had no knowledge of, no say over and no benefit from (Jones, 2019; Jubilee Debt Campaign, 2019; Toyana, 2019; Wirz, 2019).

Reducing corruption risk to lenders

The scandals described in the previous section highlight the potential risks of loans being linked to corruption as opposed to being effectively used for the development of public goods or services. This is obviously bad for the borrowing country. Corruption scandals of this type are, however, equally bad for lenders as they constitute institutional and reputational risks. As Power (2004: 32) argues, “reputation has turned the concept of materiality upside down; financially immaterial events may have huge potential significance for the organisation.”

To safeguard its own lending and to help public procurement authorities make informed decisions with an emphasis on mitigating corruption risk and promoting fair and free competition, the World Bank operates a sanctions system. This is an online platform that publishes debarment decisions where companies/people have been found to have broken World Bank regulations, and become ineligible for being awarded World Bank-financed contracts (World Bank, 2018a). On this list are also entities that have been debarred by other financial institutions, notably the Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, and African Development Bank.¹⁰

In relation to Uganda, there are 12 entities on the current debarment list. These are shown in Table 4 below. As noted in the table, the debarred individuals/companies have all broken regulation 1.14 of the World Bank’s Procurement Guidelines, which refers to fraud and corruption.

Table 4: Debarred individuals/firms in Uganda

Firm name	Ineligibility period		Grounds
	From	To	
Mr. Charles Kyenkya	30-Sep-2014	29-Sep-2021	Procurement Guidelines, 1.14(a)(i)-(ii)
Pioneer Construction Ltd	30-Sep-2014	29-Sep-2022	Procurement Guidelines, 1.14(a)(i)-(ii)
B.V.S Construction Limited	15-Nov-2012	ongoing	Procurement Guidelines, 1.14(a)(ii)
Mr. Jayaram Reddy	15-Nov-2012	ongoing	Procurement Guidelines, 1.14(a)(ii)
Vital Supplies and Logistics Ltd	20-Mar-2012	ongoing	Procurement Guidelines, 1.14(a)(ii)
Dhema Agencies Limited	09-Feb-2012	ongoing	Procurement Guidelines, 1.14(a)(ii)

¹⁰ Debarred entities are listed here: <http://www.worldbank.org/en/projects-operations/procurement/debarred-firms>

Eastern Builders and Engineers Limited	31-Jan-2012	ongoing	Procurement Guidelines, 1.14(a)(i); 1.14(a)(ii)
Mr. Gurdyal Singh	31-Jan-2012	ongoing	Procurement Guidelines, 1.14(a)(i)
Mr. Allan Makabayi	15-Dec-2011	ongoing	Procurement Guidelines, 1.14(a)(ii)
Broadway Engineering Services Limited	25-Oct-2011	ongoing	Procurement Guidelines, 1.14(a)(i) and 1.14(a)(ii)
Ayemo Investments Limited	17-Oct-2011	ongoing	Procurement Guidelines, 1.14(a)(ii)
Mr. Alex Opua	17-Oct-2011	ongoing	Procurement Guidelines, 1.14(a)(ii)

Source: World Bank (n.d.), retrieved from <http://www.worldbank.org/en/projects-operations/procurement/debarred-firms>. Licensed under a Creative Commons Attribution 4.0 International License (CC BY 4.0) [14/05/2019]

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Acknowledgements

We thank the following expert who voluntarily provided suggestions for relevant literature or other advice to the author to support the preparation of this report. The content of the report does not necessarily reflect the opinions of any of the experts consulted.

- Imelda Namagga, Head of Policy Analysis and Governance, Uganda Debt Network.

Suggested citation

Mills, L. (2019). *Transparency of Loans to Uganda*. K4D Helpdesk Report. Brighton, UK: Institute of Development Studies.

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