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PARLIAMENT OF UGANDA

REPORT OF THE COMMITTEE ON NATIONAL ECONOMY ON THE PROPOSAL BY GOVERNMENT TO BORROW UP TO EURO 455.03 MILLION (EQUIV. TO USD 464.13 MILLION) FROM STANDARD CHARTERED BANK (SCB) AND OTHER FINANCE INSTITUTIONS TO FINANCE THE DEVELOPMENT AND INFRASTRUCTURE BUDGET FOR THE FY 2022/23

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Kabaka.

Office of the Clerk to Parliament

Parliament building

Hamurenbe

November, 2022

1.0 INTRODUCTION

Pursuant to Rule 155 of the Rules of Procedure of Parliament, the Committee on National Economy considered a proposal by Government to borrow up to Euro 455.03 Million (Equiv. to USD 464.13[1] million) from Standard Chartered Bank (SCB) and Other Finance Institutions to finance the development and Infrastructure Budget for FY 2022/23. The Proposal was presented to this august House by the Hon. Minister of Finance, Planning and Economic Development on 1st November, 2022 and referred to the Committee on National Economy for consideration in line with Rule 155 (2) of the Rules of Procedure of Parliament. The Committee considered and scrutinized the proposal and now begs to report.

2.0 BACKGROUND

Parliament approved a budget of UGX 48.13 trillion for expenditure during FY 2022/23. The budget was to be financed through domestic revenues including Appropriation in Aid (AIA) amounting to UGX 25.78 trillion, Grants amounting to UGX 2.16 trillion and the rest of budget deficit to be financed through external borrowing of UGX 7.1 trillion and domestic borrowing amounting to UGX 13.0 trillion for both budget support as well as domestic debt refinancing (Table 1).

With regard to performance of the resource envelope, the Committee was informed that cumulatively, net revenue collections for the Quarter 1, FY 2022/23 amounted to **UGX 5.411 trillion** against the approved projection of **UGX 5.233 trillion** registering a surplus of **UGX 177.9 billion**. Tax revenues accounted for 78 percent (UGX 139.6 billion) of the surplus while non -tax revenues accounted for 22 percent (UGX 38.3 billion) of the quarter one surplus domestic revenues.

On the other hand, domestic borrowing had performed at 33 percent of the quarter 1 target realizing only UGX 505.9 billion and leaving a deficit of UGX 1.037 trillion

[1] Exchange rate of as of 22nd March 2022, I Euro : 1.019999 USD. However on the exchange rate as of 26th October 2022, 1 Euro: 1 USD implying at October rate, loan amount is equivalent to USD 455.03 million

Table 1: Approved Resource Envelope FY 2022/23

Category with Figures in UGX Billions	Approved Budget	Quarter 1 target	Quarter 1 Outturn	Surplus /Deficit	Quarter 1 Performance
(1) Domestic Resources	30,788.6	N/A	N/A	N/A	N/A
Total Domestic Resources for data available	**30,516.1**	**6,776.8**	**5,917.6**	**-859.2**	**87%**
o/w URA Tax Revenue	23,754.9	4,898.9	5,038.5	139.6	103%
o/ w Non Tax Revenue	1,795.9	334.89	373.2	38.3	111%
o/w Domestic Financing	4,965.2	1,543.0	505.9	-1,037.1	33%
o/w Appropriation in Aid /Local Revenue	238.5	N/A	N/A	N/A	N/A
o/w UWEP Revolving Fund	34.2	N/A	N/A	N/A	N/A
o/w Petroleum Fund	0.0	0	0	-	
(2) External Resources	**9,334.0**	**N/A**	**N/A**	**N/A**	**N/A**
Budget Support	2,656.8	744.7	0	(744.7)	0%
o/w Grants	78.0	39.0	0	(39.0)	0%
o/w Loans	2,578.8	705.7	0	(705.7)	0%
Project Support	6,677.2	N/A	N/A	N/A	N/A
o/w Grants	2,090.5	N/A	N/A	N/A	N/A
o/w Loans	4,586.7	N/A	N/A	N/A	N/A
TOTAL RESOURCES (1+2)	**40,122.7**	**N/A**	**N/A**	**N/A**	**N/A**
* Below the line Domestic Debt Re-financing	8,008.0	N/A	N/A	N/A	N/A
TOTAL RESOURCE ENVELOPE	**48,130.7**	**N/A**	**N/A**	**N/A**	**N/A**

Source: Parliament-Approved, MFPED & PBO computations. N/A implies Data not yet available at the time the report was made

By the end of quarter one FY 2022/23, Government had not received any budget support both in form of loans or grants. The committee was further informed that the IMF budget support loan that was expected to disburse USD 125 million in quarter 1 had not yet disbursed due to the conditionality attached, and this is now expected in December 2022. However, the IMF funds are not adequate to meet the budget deficit for FY 2022/23.

With regard to expenditures, 51.9 percent had been availed for expenditure to the various MDAs for the first six-months (half year) FY 2022/23. With the exception of the domestic arrears budget that had over performed by half year, the other expenditure categories were around 50 percent while the GOU development budget was at 38.5 percent (Table 2).

Table 2: Half year Budget Performance FY 2022/23 (UGX, Bns)

Category	Approved budget	Q1 releases	Q2 Releases	Half year releases	Half year release perf
Wage	6,375.58	1,825.74	1,780.05	3,605.80	56.6%
Non-Wage	11,113.89	2,577.58	3,231.28	5,808.86	52.3%
GoU Devt	7,849.81	790.44	2,229.31	3,019.75	38.5%
Arrears	661.95	661.71	39.44	701.15	105.9%
Total GoU	**26,001.23**	**5,855.46**	**7,280.08**	**13,135.55**	**50.5%**
Debt	15,174.17	3,758.29	4,121.77	7,880.06	51.9%
Ext Fin	6,716.17	2,033.12	1,914.87	3,947.99	58.8%
Local Revenue	239.11	N/A	N/A	N/A	
Grand Total	**48,130.68**	**11,646.87**	**13,316.72**	**24,963.60**	**51.9%**

Source: MFPED & PBO computations. N/A implies data not yet available at the time the report was prepared

In order to finance the approved budget, the Hon. Minister is proposing to borrow Euro 455.03 million from Standard Chartered Bank and other finance institutions to finance the development and Infrastructure budget for FY 2022/23.

3.0 METHODOLOGY

The Committee held a meeting with and received submissions from Ministry of Finance, Planning and Economic Development

Documents reviewed

i) Minister's brief to Parliament on the proposal to authorize Government to borrow up to Euro 455.03 Million (Equiv. to USD 464.13[2] million) from Standard Chartered Bank (SCB) and Other Finance Institutions to finance the development and Infrastructure Budget for FY 2022/23 as Appropriated;

ii) Budget committee report on the Budget Estimates for FY 2022/2023

iii) Draft Financing Agreements

iv) List of Financing options considered while selecting a creditor

v) A letter of no objection to the proposed borrowing from National Planning Authority.

vi) Proposed Loan Repayment Schedule

4.0 Proposed Budget Support Loan for FY 2022/23

The loan will be provided by a consortium of financing institutions arranged by Standard Chartered Bank; that is Nippon Export and Investment Insurance (NEXI), Abu Dhabi Fund for Economic Development (AFED) and Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) as indicated in Table 3:

[2] Exchange rate of as of 22nd March 2022, I Euro : 1.019999 USD. However on the exchange rate as of 1st November 2022, 1 Euro: 1 USD implying at October rate, loan amount is equivalent to USD 455.03 million

Table 3: Proposed Loan Amount by Funding Source and Category

Category/Funding source	NEXI/ AFED (Amount in Euro Mns)	ICIEC (Amount in Euro Mns)	Total (Amount in Euro Mns)	Total (Amount in UGX[3] Bns)	Share of total borrowing
Loan Amount incl. Premium	272.33	182.70	455.03	1,726.24	100%
o/w Project Amount	245.10	163.73	408.83	1,550.97	90%
o/w Premium (Insurance)	27.23	18.97	46.20	175.27	10%
Share of total borrowing	60%	40%	100%		
Premium % of Project Amount	11%	12%	11%		

Source: Draft financing Agreements and Committee Computations

The total proposed borrowing of up to Euros 455.03 million to be arranged by Standard Chartered Bank comprises Euro 272.33 million (60%) from the NEXI facility and euro 182.7 million (40%) from the ICIEC facility.

[3] Converted to UGX using the rate of 1 euro : 3793.68, the mid and closing rate on 27th October 2022 per Bank of Uganda

5.0 LOAN TERMS

Table 4: Loan terms under the lending facilities

S/N	Term	NEXI/AFED	ICIEC
1.	Loan amount:	Euro 272.33 Million (equivalent of USD 250 million)	Euro 182.70 Million (equivalent to USD166 million)
2.	Maturity:	10 years	10 years
3.	Grace period:	4 years	4 years
4.	Margin:	1.90%	1.90%
5.	Interest rate:	Tentative : 4.25% Margin of 1.9% + 6-months Euribor (Taken as 2.35% estimate for 10 years)	Tentative: 4.25% Margin of 1.9% + 6-months Euribor (Taken as 2.35% estimate for 10 years)
6.	Upfront fees:	1.5% of the loan amount	1.5% of the loan amount
7.	Commitment fees:	0.57% on undisbursed amount of the loan.	0.57% on undisbursed amount of the loan.
8.	Guarantee / insurance fees:	10% flat € 27.23 million	1.5%p.a. € 18.98 million
9.	Agency Fee:	Euro 150,000 flat or Euro 15,000 per year.	Euro 150,000 flat or Euro 15,000 per year.

Source: Draft financing agreements for ICIEC-the commercial terms Agreement, The Investment Agency Agreement, The Master Murabaha Agreement and Undertaking Deed

Based on the above loan terms and current market conditions, the committee observed that the effective interest rate[4] on the Loan facility under the NEXI facility is 5.41 percent while that under ICIEC is 5.91%.

[4] This rate takes into consideration all loan costs each annualized over the loan period.

The Committee noted that despite the cost of insurance, the two facilities had better terms compared to the other 10 offers which did not necessitate Government to pay insurance fees since the other creditors had higher margins translating into higher effective interest rates.

6.0 LOAN CONDITIONS

In respect of the Purchaser – the Government of Uganda must fulfill the following conditions:

a) A copy of the resolution from Parliament of Uganda approving the terms of, and the transactions contemplated by, in the finance documents;

b) A clearance letter from Attorney General for each of the Finance Documents;

c) A legal opinion in which the Attorney General of Uganda confirms the Minister of Finance of Uganda is authorized to execute the Finance Documents

7.0 CONCESSIONALITY OF THE LOAN

Loan under the NEXI / AFED Facility

Table 5: Level of Concessionality of the loan

Item	Value in Euros
Nominal Value of the Loan (NV)	272.33 million
Present Value of the loan(PV)	305.90 million
Total Debt Service of the loan	392.16 million**
Grant Element (%)	-12.3%
Discount Rate	5%

Source: *Draft financing Agreement and PBO Computations. Note: ** Based on current market terms. Could go higher if the 6 months Euribor increases much more than it is and could be lower if it returns to the negatives).*

From Table 5, the present discounted value of the loan request is Euro 305.9 million which is higher than the nominal value of the loan (Euro 272.33 million). This implies that the total future payment of the loan is more expensive than the proposed amount to be borrowed in present terms. Otherwise, the total future payment of the loan is estimated to amount Euro 392.16 million after the loan period of ten (10) years based on the current market conditions.

The loan is Commercial, since its grant element of negative 12.3 percent which is below the benchmark of 35% for concessional loans under the Public Debt Management Framework (2018) and less than 10% for semi concessional loans. The Committee was informed that Standard Chartered Bank was the only available creditor offering the cheapest credit at the market rate.

Loan under the ICIEC Facility

Table 6: Level of Concessionality of the loan

Item	Value in Euros
Nominal Value of the Loan (NV)	182.70 million
Present Value of the loan(PV)	209.21 million
Total Debt Service of the loan	272.27 million**
Grant Element (%)	-14.5%
Discount Rate	5%

Source: *Draft financing Agreement and Committee Computations. Note: ** Based on current market terms. Could go higher if the 6 months Euribor increases much more than it is and could be lower if it returns to the negatives).*

From the Table 6, the present discounted value of the loan request is Euro 209.21 million which is higher than the nominal value of the loan (Euro 182.7 million). This implies that the total future payment of the loan is more expensive than the proposed amount to be borrowed in present terms. Otherwise, the total future payment of the loan is estimated to amount Euro 272.27 million after the loan period of ten (10) years based on the current market conditions.

The loan is Commercial, since its grant element of negative 14.5 percent is below the benchmark of 35% for concessional loans under the Public Debt Management Framework (2018) and less than 10% for semi concessional loans.

Joint Concessionality of the facilities

Table 7 : Level of Concessionality of the loan

Item	Value in Euros
Nominal Value of the Loan (NV)	455.03 million
Present Value of the loan(PV)	515.11 million
Total Debt Service of the loan	664.43 million**
Grant Element (%)	-13.2%
Discount Rate	5%

Source: *Draft financing Agreement and Committee Computations. Note: ** Based on current market terms. Could go higher if the 6 months Euribor increases much more than it is and could be lower if it returns to the negatives).*

From the Table 7, the present discounted value of the loan requests is Euro 515.11 million which is higher than the nominal value of the loans (Euro 455.03 million). This implies that the total future payment of the loans is more expensive than the proposed amount to be borrowed in present terms.

Otherwise, the total future payment of the loans is estimated to amount Euro 664.43 million after the loan period of ten (10) years based on the current market conditions, implying that the loan costs are estimated at Euro 255.6 million which is 39 percent of the loan project Amount (Euro 408.83 million) to be paid over the period of 10 years.

8.0 IMPLEMENTATION MODALITIES

Once approved, the loan will be disbursed to the consolidated fund. The Ministry of Finance, Planning and Economic Development will be responsible for ensuring that funds are properly utilized to finance the FY 2022/23 the GoU development budget as approved by Parliament and accountability thereof provided to Parliament in-line with the provisions of the Public Finance Management Act, 2015 as amended.

9.0 BUDGETARY IMPLICATION

The Loan amount of Euro 455.03 million equivalent to USD 455.03 million[5] requested is within the resource envelope for the approved budget for FY 2022/23. This amount is equivalent to UGX 1.726[6] trillion.

The resource envelope indicated that in order to finance the UGX 48.13 trillion budget for FY 2022/23, UGX 2.578 trillion would specifically be borrowed to support the budget from external sources.

Therefore, the borrowing is within the resource envelope for the approved budget for FY 2022/23.

10.0 IMPACT ON DEBT SUSTAINABILITY

By end of June 2022, total public debt stood at UGX 78.799 trillion (US $ 20.98 billion), an increase by 13% from UGX 69.513 trillion (US$ 19.54 billion) as at end June 2021. The debt stock constitutes of UGX 48.136 trillion (US$ 12.814 billion) as external debt, while UGX 30.662 trillion (US$ 8.162 billion) is domestic debt. As a share of debt to GDP Nominal Debt to GDP increased from 46.9 percent in June 2021 to 48.4 percent in June 2022 performing within the thresholds of the charter for fiscal responsibility, while the present value of debt to GDP increased from 37.6 percent to 40.1 percent respectively during the same period.

With the approval of the proposed borrowing, totaling to Euro 455.03 million equivalent to USD 455.03 million will increase the external debt exposure from USD 17.8 billion as at end June 2022 to USD 18.2 billion. In addition, the proposed borrowing alone will increase the debt to GDP ratio by slightly more than 1% (1.06%) increasing the nominal share of debt to GDP projected to perform at 51.8% in FY 2022/23. Consequently, debt service costs over the

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[5] Based on Exchange rate of I Euro : 1 USD as on 27th October 2022

[6] Converted to UGX using the rate of 1 euro : 3793.68, the mid and closing rate on 27th October 2022 per Bank of Uganda

medium term will also grow by over Euro 600 million to cater for both the principal and associated loan costs associated with this request.

However, public debt will remain within the sustainable levels, as the budget support borrowing was part of the debt sustainability analysis on debt as at June 2021 that indicated that debt was sustainable.

11.0 OBSERVATIONS

11.1 Need to enhance domestic revenues

The Committee noted that an increase in revenue collection reduces the country's budget deficit and consequently her reliance on debt, in effect keeping public debt at sustainable levels. Over the years, domestic revenues have stagnated around 13 percent of GDP, despite the growth in the economy. Tax collections remain below the Sub-Saharan average of 15 percent. Uganda's economy is dominated by the informal sector (55%), implying limited tax collections. In addition, most of the direct taxes are generated from the smaller formal sector.

The Committee noted that in a bid to enhance revenue mobilization, Government developed the Domestic Revenue Mobilization Strategy (DRMS) 2019/20-2023/24. The core objective of the strategy is to improve revenue collection, and raise Uganda's tax to Gross Domestic Product (GDP) ratio from 12.5 percent to 16-18 percent within the five financial years. Further, the revenue strategy over the third National Development Plan (NDP III) period envisages improving compliance and efficiency in tax revenue collections through the implementation of the DRMS. Emphasis is given to strengthening administrative efforts so as to narrow the gap between current and potential revenue performance.

The Committee noted that although there has been an increase in revenue collections over the years, a large portion of the additional revenue is spent towards public administration, thus increasing the borrowing need to finance country's development agenda. In addition, government loses a lot of revenue through tax exemptions and illicit financial flows thus contributing to the low tax revenues realized and failure to attain the tax to GDP of the country's peers in the sub-Saharan region.

The Committee recommends that Ministry of Finance, Planning and Economic Development should review and present to Parliament Tax Exemption Policy with a view of streamlining tax burden proportionately.

In addition, Uganda Revenue Authority widens the tax base through; registering informal businesses, curb unqualified tax expenditures and illicit financial flows

Further, the Committee recommends that government puts a halt on creation of administrative units to minimize the recurrent budget needs. This will ensure that additional revenue collections are directed towards critical development projects.

11.2 Need for early and timely sourcing of creditors

The Committee observed that budgets are approved with a resource envelop that indicates planned borrowing to finance budget deficit among others. However, during implementation, the creditors are identified and the loan terms submitted to Parliament later for approval, sometimes as late as third quarter of a financial year. Most of the terms are unfavorable especially non concessional terms for budget support loans, noting that the budget would have already been approved, leading to approval of the loans at expensive terms given the absence of timely alternatives, and a rejection would imply failure to finance the already approved budget.

The Committee recommends that Government considers submitting the draft budgets for approval together with the proposed creditors and their

financing terms for proposed budget support borrowing to ensure that budget is approved with budget support loans whose creditor terms and conditions are agreeable to Parliament just as it is with the revenue bills.

11.3 Need to bring down the cost of Borrowing

The Committee observed that in the proposed borrowing, Standard Chartered Bank is the Mandated Lead arranger, Investment Agent and the structuring and global coordinating Bank. The Bank is playing the three roles which attract a different cost. In addition there is a broker who is also paid a different fee. This implies the cost of borrowing increases through intermediaries which would have otherwise been avoided if government was procuring these loans through direct sourcing.

The Committee recommends that Government devises means of direct sourcing of financing from creditors so as to bring down the cost of borrowing.

11.4 Need to Protect the Sovereignty of the Country.

The Committee noted that one of the clauses in the draft financing agreements is the waiver of Immunity, whereby Government consents generally, in respect of any legal action or proceeding arising out of or in connection with any Finance Document to the giving of any relief or the issue of any process in connection with such action or proceeding , including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such action or proceeding.

The clause further stipulates that Government irrevocably agrees not to claim and irrevocably waives such immunity to the extent permitted by the laws of such jurisdiction and in accordance with the state Immunity Act 1978 and, without limitation, Government waives generally all immunity it or its assets or revenues may otherwise have in any jurisdiction, over all its properties (apart from a few exceptions like Defence and security, natural resources) and itself from the enforcement of any form of judgment to enforce the agreements and requiring Government to pay all legal fees and insurance premiums on behalf of the creditor.

The Committee recommends that Ministry of Finance should re-negotiate the provisions relating to waiver of sovereign immunity to avoid exposing critical Government assets to creditors in the event of default.

12.0 CONCLUSION

Government is seeking to borrow Euro 455.03 million to provide budget support for the FY 2022/23. With the proposed borrowing, debt will remain sustainable over the medium to long term to the extent to which the debt sustainability analysis assumptions are realized.

Since the loan is in foreign currency, Government needs to boost exports to ensure that there is sufficient foreign currency to service the foreign debt in the short to medium term while improving the current account balance.

Government should in addition, enhance domestic revenue mobilization as a sure means of reducing the fiscal deficit and ensuring that the debt service obligations.

It is clear that with increased budget financing realisation, Government will finance the approved budget for FY 2022/23, thus increase its potential to boost economic growth through increased aggregate demand in the economy, especially when most funds are spent in the country to provide the much needed counter cyclical fiscal policy support at a time when the economy is recovering. Failure to approve the request implies that the approved development budget for FY 2022/23 will not be financed.

The Committee therefore recommends that that subject to the observations and recommendations herein, this House approves a request by Government to borrow up to Euro 455.03 Million (Equiv. to USD 464.13 million[7]) from Standard Chartered Bank (SCB) and Other Finance Institutions to finance the development and Infrastructure Budget for FY 2022/23.

I beg to report

[7] Exchange rate of as of 22nd March 2022, I Euro : 1.019999 USD. However on the exchange rate as of 1st November 2022, 1 Euro: 1 USD implying at October rate, loan amount is equivalent to USD 455.03 million

SIGNING OF THE REPORT OF THE COMMITTEE ON NATIONAL ECONOMY ON THE PROPOSAL BY GOVERNMENT TO BORROW UP TO EURO 455.03 (EQUIV. USD 464.13) FROM STANDARD CHARTERED BANK AND OTHER FINANCE INSTITUTIONS TO FINANCE DEVELOPMENT AND INFRASTRUCTURE BUDGET FOR FY 2022/23

S/N	NAME	CONSTITUTENCY	SIGNATURE
1.	**Hon. Ikojo John Bosco C/P**	**Bukedea County**	
2.	**Hon. Migadde Robert Ndugwa D/CP**	**Buvuma Islands County**	
3.	Hon. Awich Jane	DWR Kaberamaido	
4.	Hon. Ayoo Tonny	Kwania County	
5.	Hon. Baka Stephen Mugabi	Bukooli County North	
6.	Hon. Katwesigye Oliver Koyekyenga	DWR Buhweju	
7.	Hon. Natukunda Midius	DWR Rukungiri	
8.	Hon. Byarugaba Alex Bakunda	Isingiro County South	
9.	Hon. Chemutai Phyllis	DWR Kapchorwa	
10.	Hon. Etuka Isaac Joakino	Upper Madi County	
11.	Hon. Isabirye Iddi	Bunya County South	
12.	Hon. Kajwengye Twinomugisha Wilson	Nyabushozi County	
13.	Hon. Agaba Aisa	Bugangaizi East County	
14.	Hon. Kemirembe Pauline Kyaka	DWR Lyantonde	Kemirembe
15.	Hon. Lematia Ruth Molly Ondoru	Maracha East County	
16.	Hon. Lochap Peterkhen	Bokora East County	
17.	Hon. Twinobusingye Jovanice	DWR Kiruhura	
18.	Hon. Aber Lillian	DWR Kitgum	
19.	Hon. Avur Jane Pacuto	DWR Pakwach	
20.	Hon. Byanyima Nathan	Bukanga North County	
21.	Hon. Kibalya Henry Maurice	Bugabula County South	

22.	Hon. Awas Sylvia Vicky	DWR Nabilatuk	
23.	Hon. Kwizera Paul	Kisoro Municipality	
24.	Hon. Wokorach Simon Peter	Aswa County	
25.	Hon. Teira John	Bugabula County North	
26.	Hon. Ebwalu Jonathan	Soroti West Division	
27.	Hon. Atugonza Allan	Buliisa County	
28.	Hon. Makhoha Margaret	DWR Namayingo	
29.	Hon. Abeja Susan Jolly	DWR Otuke	
30.	Hon. Macho Geofrey	Busia Municipality	
31.	Hon. Tusiime Julius Karuhanga	Rwampara East County	
32.	Hon. Kabuusu Moses	Kyamuswa County	
33.	Hon. Oguzu Lee Denis	Maracha County	
34.	Hon. Akena James Micheal Jimmy	Lira East Division	
35.	Hon. Kayondo Fred	Mukono County South	
36.	Hon. Katabazi Francis Katongole	Kalungu East County	
37.	Hon. Kirumira Hassan	KatikamuCounty South	
38.	Hon. Nyeko Derrick	Makindye Division East	
39.	Hon. Saazi Godfrey	Gomba East County	
40.	Hon. Bwanika Abed	Kimaanya-Kabonera Division	
41.	Hon. Gen. Mugira James	UPDF	
42.	Hon. Ojok Andrew Oulanya	NRM	

MINORITY REPORT ON THE PROPOSAL TO BORROW EURO 455.03 MILLION (EQUIV. TO USD 464.13) TO FINANCE THE DEVELOPMENT AND INFRASTRUCTURE BUDGET FOR THE FY 2022/23.

Moved Under Rule 205 of the Rules of Procedure

NOVEMBER 2022

1.0 AREA OF DISSENT

Pursuant to Rule 205 of the Rules of Procedure of the Parliament of Uganda, we hereby present a dissenting opinion from the opinion of majority of the Committee. We dissented with majority of the Committee on fundamental matters below:

1. Financing Terms.
2. Purpose of the Loan
3. Application of the Loan
4. Non-compliance.

2.0 DISSENTING OBSERVATIONS

Ministry of Finance Planning and Economic Development negotiated this loan in March, 2022 according to documents submitted by Ministry of Finance, Planning and Economic development. The same Ministry without revealing the massively unfair terms of this loan facility allowed us to pass the budget on 20th May, with room to borrow up to 2.5 trillion. This was a fundamental error and disservice to our people, the tax payers whom we represent in this House.

2.1 Financing Terms

Rt. Hon. Speaker, the terms of this loan are closer to a typical money lender to Government. Approving these terms without strict scrutiny and strict recommendations by this House is an abdication of our representative role.

Loan Amount:	€ 455 million
Maturity:	10 Years including grace period of 4 years.
Upfront fees:	1.5% of total loan amount (€ 6.82 million)
Interest Rate:	4.25% (€ 131.26 million)
Guarantee Fees:	10% (€ 46.21 million)
Effective Interest rate:	5.9% for NEXI and 5.4% for ICIEC facilities

Observations;

i. The loan tenure maturing at 10 years is very short when compared to concessional loans of the World Bank and Africa Development Bank of 40 years.
ii. The loan guarantee fee of 10% equivalent to (€ 45.5 million) is a total ransacking of Ugandan tax payers. This seems to be the "cut" for Standard Chartered Bank (UK), the lead arranger of this facility, this is a

clear evidence of poor negotiation on the part of our government. This has to be paid **Tax free** in lump sum as a condition before the loan is disbursed.

iii. When adjusted for all charges the effective interest rate of 5.6%, it ceases to make sense that Uganda, a sovereign state, expecting to produce oil and gas very soon, should be borrowing development finance at a rate higher than some private entities.

iv. The effective rate and costs associated with the loan is considered to be too high for Uganda. In effect, value of the total Loan is Euro 455 million, but the take home net is Euro 409.5 leading to a 65% total cost of the loan in 10 years.

v. The loan agreements between the Government of Uganda represented by the Ministry of Finance, Planning and Economic Development on one part and Standard Chartered Bank UK(**broker**) representing the leaders was shared by the Ministry to the Committee on Monday. This agreement has ambiguous costs. **In a letter from the Attorney General to the Standard Charted Bank dated 25th October 2022 as attached, the Attorney is not comfortable with some of the clauses, terms and waivers in this loan agreement.**

vi. It is interesting Rt. Hon Speaker, that part of the agreement was from an Islamic banking institution, the ICIEC. With a specific product of **Murabaha** which does not attract interest according to Islamic Sharia. The Euro 182.70 million that has been arranged, does not attract interest.

2.2 Purpose of the Funds

Rt. Hon. Speaker, at the heart of this loan request is a trap for this Parliament to blindly fall in. A trap to borrow for the Development Budget (Specific projects including roads, water, energy, education and health) without separating the loan money from the usual URA revenue that is most times abused. This is a very expensive loan with a specific purpose and therefore cannot be mixed with the attractive domestic resources.

Till today, the Minister failed to present a list of development projects to Parliament to which the Euro 455m loan will fund leaving fears that this loan is going to be disbursed to the consolidated fund. This implies that the loan may be spent on recurrent expenditures like wages, seminars, arrears, supplementary budgets among others, rather than the intended infrastructural and development projects.

2.3 Non-Compliance.

Rt. Hon. Speaker, this particular loan request and processing by the Committee fundamentally offended the constitution of the Republic of Uganda as well as the Rules of Procedure in ways that negatively affect the tax payer.

Rule 155 (5) of the Rules of Procedure go further to guide on specific requirements for documents to be laid. These include; A letter from National Planning Authority clearing the loan as being consistent with other macroeconomic variables as well as effect of its debt repayment on liquidity in the coming budgets.

One of the loan financing conditions is that the Minister shall submit the list of projects to the consortium of lenders. The Minister has committed to submitting the list to the lenders but has deliberately refused to submit the same list to Parliament. We find this action by the Minister to be in total breach of the letter and spirit of Art. 159 of the constitution. Any Member of Parliament deserves to be given the list of projects to be finance by a loan in which such a member is being asked to vote for.

Rt. Hon. Speaker, the letter from NPA has not been laid in this House to support the members in in assessing this loan request. This letter by NPA goes to the core of planning and our national debt management and therefore cannot be taken as a mere formality by this House. What the Minister of Finance, Planning and Economic Development laid before the committee was a certificate of compliance of the Annual Budget for FY 2021/22. How do we approve a loan to affect future loan repayments without an opinion of the Government's chief planner? How?

3.0 RECOMMENDATIONS.

We recommend that this House in the spirit of minimizing loss to our country and for purposes of raising revenue to finance the budget, processing of this loan, goes through the due process. Specifically,

i. Before approval of this loan, the House requests the Minister responsible for Finance to table all the agreed legal requirements as stated in Sec. 3.2 of this report above.
ii. Standard charted Bank should meet its tax obligations on the commission earned as a lead arranger of the loan.
iii. In case of dispute between Uganda, standard Charted Bank and other Financial institutions, Attorney general needs to renegotiate fair terms for Uganda so that we don't sacrifice the country's sovereignty and key national assets into the hands of the lender. The terms are un-favourable in their current state for a country like Uganda.
iv. Ministry of Finance, planning and Economic Development should submit in Loan applications in time to enable the Committee on National economy to have enough time to do a better job in its processing.

4.0 CONCLUSION.

Rt. Hon. Speaker and **Honourable Colleagues,**

Our prayer is that, given the poor terms in the agreement and the failure of Government to provide a schedule and list specifying the development infrastructure projects to be funded by this loan, we recommend that this house supports this minority report and rejects this loan request. We further encourage the government to look at other financing ways of resource mobilisation like concessional loans to avoid debt trap and protecting the sovereignty of our country.

5.0 MEMBERS OF THE COMMITTEE ON NATIONAL ECONOMY WHO SIGNED THE MINORITY REPORT ON THE THE PROPOSAL TO BORROW EURO 455.03 MILLION (EQUIV. TO USD 464.13) TO FINANCE THE DEVELOPMENT AND INFRASTRUCTURE BUDGET FOR THE FY 2022/23.

SN	Name	Signature
	Katabaazi Francis Katongole	
	NYEKO DERRICK	
	KIRUMIRA HASSAN	