



The Republic of Uganda

Contingent Liabilities Annual Report

FY 2020/2021

Directorate of Debt and Cash Policy

MINISTRY OF FINANCE PLANNING AND ECONOMIC DEVELOPMENT

www.finance.go.ug

March 2022

TABLE OF CONTENTS

Acronyms	3
Foreword	4
Executive Summary	6
1. Introduction	7
1.1 Background	7
1.2 Methodology	7
1.3 Report Structure	7
2. Explicit Contingent Liabilities	8
2.1 Loan Guarantees	8
2.2 PIPELINE Guarantees	11
2.3 Guarantees related to Public-Private Partnership (PPP) contracts	12
3. Implicit Contingent Liabilities	23
3.1 Disbursed and Outstanding debt of State-Owned Entities and Extra-Budgetary Units	23
3.2.1 Stock of GoU on-lent loans	24
3.3 Grants and GoU contributions	24
3.4 Non-Guaranteed Debt and Other Liabilities of Local Governments	25
3.5 Financial Stability of Banks	26
4. Contingent Liabilities arising from Legal Proceedings	28
5. Challenges met during the Fieldwork	28
5.1 Challenges	28
5.2 Recommendations	28
6. Annexes	30
Annex 1: Extract from the <i>Public Financial Management Act, 2015</i>	30
Annex 2: List of State-Owned Enterprises & Extra Budgetary Units included in the Contingent Liabilities Fieldwork Exercise in 2020/21	31
Annex 3: List of Local Governments included in the Contingent Liabilities Fieldwork Exercise in 2020/21	33

List of Tables

Table 1: Status of Pipeline Guarantees	11
Table 2: on-going PPP projects.....	12
Table 3: Fiscal commitments and contingent liabilities	18
Table 4: Non-Guaranteed Debt and other Liabilities of SoEs and EBU.....	23
Table 5: Contingent Liabilities arising from Local Governments	25

List of Figures

Table 1 Guaranteed Debt stock and Government Exposure as at end December 2020	10
Figure 2: Distribution of debt and other liabilities of SoEs and EBU.....	24

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

A contingent liability is a debt that you may or may not incur. Contingent liabilities are treated depending on the probability of the liability occurring and ability to accurately predict the amount of the obligation. This is set out in the 2005 Constitution, Public Finance and Management Act PFMA (2015), Treasury Bill Act 1969, Treasury Instructions 2017, and the Bank of Uganda Act 2000, among others.

The Public Debt Management Framework (**PDMF**) 2018 recognizes these liabilities, which are relevant to estimating the total liability exposure of government. This is intended to ensure prudent management of direct and contingent liabilities arising from such contracts/arrangements. Under the PDMF 2018, the Directorate of Debt and Cash Policy produces and publishes annual estimates of contingent liabilities. Contingent liabilities are recorded, monitored and analyzed to determine the current and future budgetary implications; and to provide an early warning system of any future pressures. In addition, the annual **Fiscal Risks Statement** (FRS) provides an opportunity for consolidated reporting of specific fiscal risks including those arising from contingent liabilities, as required in the **Charter of Fiscal Responsibility** (CFR).

The 2008 Global Financial Crisis increased the interest of governments to manage risks from contingent liabilities. Numerous governments faced difficulties to finance materializing contingent liabilities, such as bailouts of banks and financial support to State Owned Enterprises. The production of this report is intended to determine the stock of Government of Uganda Contingent Liabilities and the associated risks. The report also informs other Public Debt Management Reports like Debt statistical bulletins (DSB), Debt Sustainability Analysis (DSA), and the Report on Public debt, Guarantees and other Financial Liabilities of Government.

In Uganda specifically, loan guarantees, legal proceedings, and contingent liabilities arising from Public Private Partnerships arrangements constitute a bigger share of the Explicit Contingent Liability¹ for the Government. Other major sources of fiscal risk include debt of State-Owned Enterprises (SOEs) which, constitute Implicit Contingent Liabilities². Debt of SOEs mainly comprise of on-lent loans which, do not constitute contingent liabilities. However, they constitute contingent assets whose non-performance may impair Government assets and finances. These liabilities have to be consistently monitored and reported on, as is done in this report.

In the preparation of the FY 2020/21 series, Audited Financial Statements were obtained from various Public and Public-Aided Institutions and Local Governments. Data was also got from the Ministry of Justice and Constitutional Affairs on legal proceedings. This information was analyzed and together with the aforementioned data sources, informed the preparation and data tables contained in this report. I salute all the Public and Public-Aided institutions and Local Governments to mention, for the cooperation that

¹ An explicit contingent liability is one where the government has a clear and firm obligation, or a declared policy, to provide fiscal support should a predefined event occur e.g. guarantees.

² An implicit contingent liability is where there no explicit (legal or contractual) obligation or policy to provide fiscal support, but there is an expectation that the government would do so should the risk materialize ('insurer of last resort') e.g. support to public enterprises should they get into financial difficulty.

they exhibited during the data collection exercise. I wish to extend gratitude to the management of this Ministry all the support that has enabled us to produce this report.



Maris Wanyera

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

The Directorate of Debt and Cash Policy (DDCP) under the Ministry of Finance, Planning and Economic Development compiles an annual contingent Liabilities fieldwork report. The FY 2020/21 report highlights the different contingent liabilities faced by the GoU. The scope of the report focuses on credit facilities for loan guarantees, authorization for unguaranteed debt liabilities, contingent liabilities from PPP arrangements and legal actions against the GoU.

The major explicit contingent liabilities include loan guarantees issued by the GoU which stands at a level of USD 55.1 million. The current guarantee portfolio mainly consists of two entities; Islamic University in Uganda (IUIU) and Uganda Development Bank Ltd (UDBL). As of December 2021, the gross exposure (disbursed and outstanding guaranteed stock) from loan guarantees stood at approximately USD 26.9 million, representing 0.1% of GDP in nominal value terms. This indicates a sharp decrease of 5.14% from USD 28.3 million as at December 2020. The decrease was mainly due to total repayments of USD 2,202,875 by UDBL on their loans and counteracted by additional disbursement of relative to repayment of USD 875,614 on the Exim India loan.

Legal proceedings are a major source of explicit contingent liabilities and appear to be dominated by a relatively small number of large claims that are domestic in nature³. As at end June 2021, GoU contingent liabilities as a result of legal proceedings have increased to UGX. 160Tn, indicating a sharp increase of 1441.2% from UGX 10,407.15 as at end June 2020. This is because of the rise in the number of court cases during the period under review.

Borrowing of public enterprises is regulated appropriately, and the liabilities are significant and growing. These liabilities constitute an Implicit Contingent Liability. As at end June 2021, the stock of debt (direct domestic and external borrowing plus on - lent) of public entities amounted to UGX 7, 085.4 billion (USD 1.992 billion), indicating a 31% decrease from UGX 10, 273.8 billion (USD 2.8 billion) as at end of June 2020. The decrease can be attributed to repayments made on previously existing borrowings and less borrowing done in FY2020/2021 because of a moratorium placed on borrowing of state - owned enterprises due to the economic downturn caused by the COVID pandemic.

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

³ Contingent liabilities from legal proceedings are analysed/categorized as Domestic and External contingent liabilities. The GoU Consolidated Financial Statement for FY 2020/21 prepared by Accountant General; indicate that these legal proceedings are mainly “Domestic “in nature.

1. INTRODUCTION

1.1 BACKGROUND

A contingent liability for the central government is a possible financial obligation that arises from past events and, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events. These events may not wholly be within the control of the Government. If the events happen, the contingent liability will result in expenditure by the Government to settle the confirmed obligation, and this therefore will pose a fiscal risk to the central government. It is on this basis that the Ministry of Finance, Planning and Economic Development (MoFPED) undertakes to prepare this report as a monitoring tool for tracking risks associated with financial liabilities that may arise from contingent liabilities. This information also informs decisions on risk mitigation measures on current guarantees and on the approval of future guarantees.

1.2 METHODOLOGY

The compilation of data is done on an annual basis and is field based. The aim of this data collection exercise is compile data on explicit and implicit contingent liabilities of the Government. The exercise targets Government guarantees, Debt of state-owned enterprises, extra budgetary units, local governments contingent liabilities from legal proceedings, Guarantees, commitments in Public Private Partnership agreements and exposure to financial sector (implicit contingent liabilities from financial institutions). The exercise covered 71 local governments and 85 State Owned Enterprises (SOEs). The compiled data is analyzed and used to prepare spreadsheets, tables and graphs as is presented in this report.

1.3 REPORT STRUCTURE

This report is divided into five sections- with the introduction as part 1. The remaining chapters of this report are: Part 2-+ the Government of Uganda's Explicit Contingent Liabilities, Part 3- Government of Uganda's Implicit Contingent Liabilities from State-Owned Enterprises, Extra-Budgetary Units and Local Governments, Part 4- Contingent Liabilities arising from Legal Proceedings and Part 5- covers the challenges arising from the fieldwork activity and recommendations.

2. EXPLICIT CONTINGENT LIABILITIES

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

2.1 LOAN GUARANTEES

As at end of December 2021, there were 7 Active guarantees comprising of the two entities Uganda Development Bank Limited (UDBL) and Islamic University in Uganda (IUIU), which amounted to a total of USD 55.1 million.

Islamic Development Bank (IDB) was the top guaranteed creditor with a guaranteed amount of USD 29.01 million, followed by African Development Bank (AfDB) with a guaranteed amount of USD 15 million, Arab Bank for Economic Development in Africa (BADEA) with USD 6 million and India EXIM Bank with USD 5 million as indicated in Table 1.

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

- a) Islamic University in Uganda, a private education institution held 11% (USD 2.9 Million) of total disbursed and outstanding stock and;
- b) Uganda Development Bank, a public financial corporation held 89% (USD 24 Million) of the total disbursed and outstanding stock of USD 26.9 Million as at end December 2021.

The current exposure of the Government to the disbursed and outstanding guaranteed debt stood at USD 26.9 million as at December 2021, indicating a 5.14% decrease from USD 28.3 million as at December 2020. The decrease was mainly due to total repayments of USD 2,202,875 by UDBL on their loans and counteracted by additional disbursement of relative to repayment of USD 875,614 on the Exim India loan. The additional decrease of USD 130,081 is attributed to the foreign exchange rate differences during the period under review, since the loan is primarily quoted in Islamic Dinar.

As at end December 2021, the nominal value of the disbursed and outstanding guaranteed debt to GDP stood at 0.1%. The total exposure to the government in case of default is USD 0.421 million, which represents 0.001% of GDP. This is the current amount in arrears due to nonpayment by IUIU and is what the Government will have to pay in case the guarantee is called off⁴.

⁴ It is important to note that the university has not met its obligations since June 2020 due to the effects of Lock-down and COVID-19 that affected mostly educational institutions. Islamic University in Uganda (IUIU), informed MoFPED that beginning this year 2022, a letter was written to IDB asking for a waiver or extension given the fact they have been not operating since the lock down and COVID-19 which affected their operations and cash flows. It's important to also note that the University is not in default, but failed to meet its obligations during the period under review.

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

Table 1 below summarizes Guaranteed debt stock and Government exposure as at the end December 2020

Table 1 Guaranteed Debt stock and Government Exposure as at end December 2020

Beneficiary	Creditor	Sector	Year signed	Guaranteed Amount (USD)	Tenure (Years)	Disbursed & Outstanding (USD)		Exposure Sept 2021 (USD)	Performance
						Dec 2020	Dec-21		
Islamic University in Uganda	Islamic Development Bank (IDB)	Education	2004	4,302,676	25	2,223,673	2,127,064	348,368	In arrears. The University has not met its repayment obligation since June 2020
Islamic University in Uganda	Islamic Development Bank (IDB)	Education	2010	983,888	20	718,990	685,518	72,773	In arrears. The University has not met its repayment obligation since June 2020
Islamic University in Uganda	Islamic Development Bank (IDB)	Education	2018	13,790,000	18	100,000	100,000	-	Delayed disbursement
Uganda Development Bank Limited	BADEA (Private Sector Development)	Financial	2017	6,000,000	10	4,874,900	4,124,900	-	On-schedule
Uganda Development Bank Limited	Islamic Development Bank (IDB)	Financial	2017	10,000,000	8	2,378,758	1,863,382	-	On-schedule
Uganda Development Bank Limited	African Development Bank (ADB)	Financial	2019	15,000,000	10	15,000,000	14,062,500	-	On-schedule repayment starts in 2021
Uganda Development Bank Limited	Exim India	Financial	2019	5,000,000	7	3,052,857	3,928,471	-	On-schedule
TOTAL				55,076,564		28,349,178	26,891,835	421,141	

Source: MoFPED, Directorate of Debt and Cash Policy

2.2 PIPELINE GUARANTEES

Government of Uganda Pipeline Loan Guarantees as at end December, 2021

As at end of December 2021, 5 guarantees amounting to USD 84.8 million were approved by Parliament as lines of credit to UDBL, mainly to facilitate trade and finance projects. All these guarantees except, the loan from Kuwait Fund for Arab Economic Development are still awaiting Solicitor General's clearance. The status of pipeline guarantee is tabulated below.

Table 1: Status of Pipeline Guarantees

CREDITOR	PROJECT NAME.	Purpose of Funding	CREDITOR	PROPOSED GUARANTEED AMOUNT OF LOAN (USD)	Status
Uganda Development Bank	Line of credit to UDBL	Funds for project Finance especially women led projects and youth	European Investment Bank	15,000,000	Approved by Parliament
Uganda Development Bank	Line of credit to UDBL	Funding for Trade Finance projects	International Islamic Trade Finance Corporation	10,000,000	Approved by Parliament
Uganda Development Bank	Line of credit to UDBL	Funds for project Finance (SMEs in key growth sectors)	OPEC Fund for International Development	20,000,000	Approved by Parliament
Uganda Development Bank	Line of credit to UDBL	USD 10 MN for Trade Finance and USD 10 MN for project finance	The Arab Bank for Economic Development in Africa. (BADEA)	20,000,000	Approved by Parliament
Uganda Development Bank	Line of credit to UDBL	Funds for project Finance	Kuwait Fund for Arab Economic Development (KFAED)	19,800,000	Approved by Parliament
Total				84,800,000	

Source: MoFPED

2.3 GUARANTEES RELATED TO PUBLIC-PRIVATE PARTNERSHIP (PPP) CONTRACTS.

As at end February 2022, there were 12 on-going Public-Private Partnerships (PPPs)⁵ projects under the PPP Act 2015 as illustrated in table 2 below:

Table 2: on-going PPP projects

SN	Project Name	Contracting Authority	Registration Date	Description	Projects size	Stage	Update
1	Kampala-Jinja Expressway	UNRA	October 2017	Design, Build, finance, operate and Transfer a limited access 95km from Kampala to Jinja	USD 1.5Bn	Procurement of private party	UNRA issued the request for proposal (RFP) to prequalified bidders on 22 November 2021. The interim submissions from three prequalified bidders were received and the process closed on 14 March 2022. UNRA expects to issue the revised RFP to bidders on 30 June 2022.
2	Kampala Waste Management PPP	KCCA	13 March 2018	Design, Build, Finance and operate a new sanitary landfill and facility at Dudu(Mukono)	UGX 163Bn	Feasibility	KCCA submitted a revised Feasibility Study Report (FRS) and financial model for the Kampala Waste Management PPP Project for the PPP-Unit's review and clearance as per their letter dated 23 December, 2021. The review of the FRS noted that the key constraint to the feasibility of the project is affordability. Without Government's intervention, the cost of the

⁵ PPPs are cooperative arrangements between government and private party, in which project risks are shared between the public and private sector.

3	Entebbe Iconic ICT Park	NITA-U	22 November, 2022	Construction of a 17 acre ICT Park in Entebbe	USD 180 million	Procurement of a private party	<p>project will charge a risk premia, and thus compound affordability. KCCA was therefore urged to seek the commitment from Treasury on the provision of the operational subsidy or provide other practical solutions to fund this operational risk before the FRS can be presented to the PPP committee for approval. KCCA is yet to revert with an updated position. Deadline not indicated.</p> <p>H.E the President issued a directive to NITA-U to work with Bsmart Technology Limited to establish the ICT/BPO park Development on August 8 2021</p> <p>The PPP committee during its 35th meeting held on Monday 22 November, 2021 considered and approved the feasibility study and procurement documents for NITA-U Iconic ICT Park.</p> <p>NITA-U intends to issue the request for proposal to Bsmart in July 2022.</p>
4	Redevelopment of National Council of Sports	National Council of Sports	06 June 2017	Redevelopment of the Sport complex in Lugogo	USD 19 million	Procurement of a transaction advisor	<p>PPP-unit provided technical assistance in the revision of EOI document for the procurement of the</p>

	Complex – Lugogo								Transaction Advisor. However, NCS has failed to proceed with this procurement because of lack of funds.
5	Redevelopment of Uganda National Cultural Centre (UNCC) Properties	UNCC	10,May2017	Redevelopment of the Theatre and associated properties	USD 174 million	Procurement of a Transaction Advisor	PPP-unit supported the UNCC Project Team to refine the ToRs for the transaction advisor. However, UNCC has failed to proceed with this procurement because of lack of funds.		
6	Mulago Car Parking	Mulago National Referral Hospital	10 May 2017	Construction of a modern multi-level parking space and commercial amenities.	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		
7	Gulu Logistics Hub	Uganda Railways Corporation (URC)	9 November 2020	Construction of a logistic Hub in Gulu on land belonging to URC	USD 21 Million	Procurement of private party	Construction of phase 1 is 95% complete financed by GoU with the support development partners. Phase 2 will focus on capacity expansion as well as development of new facilities including container yard, warehouse, container freight station, service bay administration block, customs office, and other internal and external works. The PPP committee during its 35 th meeting held on Monday 22 nd November, 2021 considered		

	8	Uganda Rural Water Development Project	MoWE	9 November 2020	MoWE with the help of private party M/S Hydro Nova Ltd to develop large diameter ground water wells in water stressed parts of the country. (it's a DBFOT project)	Approx . USD 650 Million	Feasibility study	and approved the feasibility studies and procurement documents for Gulu Logistics Hub project. The PPP project is currently at procurement phase. Following approval of the feasibility study report and accompanying documents by the PPPC, URC proceeded to issue a request for Qualification from interested parties to undertake phase 2 of the project. Bid submission was closed on March 22, 2022. The Unit is currently supporting the evaluation team set up by URC to ensure overall compliance. Bid evaluation was concluded on 31 May, 2022.
9	Uganda Post Ltd (UPL) properties Development Project	Posta Uganda	20 September 2017	All company properties to be renovated and/or re-developed for better utilization using PPP.	USD 224,490,949	Feasibility study	Project has stalled because of lack of funds for transaction advisor /feasibility study. MoWE seeking funding from private infrastructure development group for transaction advisor.	Feasibility study on going timeline undetermined.

10	Uganda coffee development Authority-multi-use office complex project	Uganda coffee development Authority	22 nd November, 2021	UCDA hopes to relocate their headquarters currently operating out of an old building on plot 35, Jinja Road.	UGX. 60 Billion	Concept stage	PPP committee approved the registration of the project as a PPP in November 2021. The unit provided advisory support to UCDA in preparation for the procurement of an advisor required to prepare a feasibility study and support UCDA in structuring of the project. The Unit supported technical activities leading to the setup of the project team. Timeline undetermined.
11	Ministry of Trade and Industry-Office Accommodati on Complex	Ministry of Trade and Industry-	22 nd November, 2021	MTAC offered MTIC land at Plot M175, Nakawa for the construction of the Trade House.	UGX. 230 billion	Concept stage	During its 35 th meeting on 22 November, 2022, the PPP committee approved the registration of the project as PPP
12	Busitema University Multi-Purpose Business Complex	Busitema University	22 nd November, 2021	Proposal to construct a multi-purpose business complex	Ugx. 4.7 billion	Concept stage	During its 35 th meeting on 22 November, 2022, the PPP committee approved the registration of the project as PPP Timelines undetermined

Source: MoFPED; (PPP-Unit)

The management of PPP-contingent liabilities is carried out in two stages i.e., both at project development and project implantation stages⁶.

⁶ In between the two stages, the PPP structure gets approved by the Government. The project development stage covers all the steps taken and includes; design, evaluate, and project tendering

The projects with completed feasibility studies as per the PPP Act include; Kampala Jinja Expressway (KJE), Gulu Logistics Hub, Entebbe Iconic ICT Park and, Kampala Waste Management Project. It was not possible to ascertain the financial exposure of the PPP projects without a feasibility study or PPP Agreement⁷.

⁷ No PPP agreement has been signed for any of the above projects.

Table 3 shows the different estimated fiscal commitments and contingent liabilities for the four projects above.

Table 3: Fiscal commitments and contingent liabilities

Project	Risk (direct/contingent liabilities)	Description	Cost	Allocation	Likelihood	Fiscal Impact	Mitigation stagey
1. Kampala-Jinja Expressway(KJE)	Land Acquisitions Availability Payments		Ugx. 1,000 billion Ugx. 100M annually for the first ten years.	GoU			
	Termination Payments	For the worst case scenario of termination for GoU convenience for debt due and compensation for equity.				low	
	Foreign currency exposure losses	Variance of the assumed rate against the financial close rate	(1 USD= 4220 UGX)				

2.	Gulu Logistics Hub	Land Acquisitions and compensation to project affected persons.	Increase in costs for resettlement. The compensation is expected to be completed within FY 2021/22.	Ugx. 7.99 billion.	GoU	Remote likelihood	Low	The land for the project is owned by URC.
		Development and maintenance of access roads	increase in development costs. Expected to be undertaken within FY 2021/22.	Ugx. 13.68 billion.	GoU	Medium	Low	Likelihood of the deviation in the costs is low given that they have to be developed in the near term.
		Termination Payments.	Paid in the any the following events, private party's default, CA's default or political force majeure.	The maximum termination payment in case of natural force majeure estimated to be in the fourth year i.e. Ugx 59 billion.	GoU (URC).	Low	Medium	PPP agreement will have provisions regarding insurance covers to be taken by the private party that shall decrease the fiscal impact of such risks.

		Payments to the independent engineer	Private party default occurring before the expiry of the contract.	Ugx. 59 billion	GoU (URC).	Low	Medium	<ul style="list-style-type: none"> Adequate technical and financial criterion of the competent private party. Establish contract monitoring and management mechanisms.
3.	Kampala Waste Management Project	Construction of the access road site.	KCCA is expected to take responsibility for the construction of the access road to Ddungu.	Ugx. 3.6 billion	GoU (KCCA)			

3. IMPLICIT CONTINGENT LIABILITIES

Implicit liabilities represent moral obligations or burdens that, although not legally binding, are likely to be borne by governments because of public expectations or political pressures. Conventional fiscal analysis tends to concentrate on governments' direct explicit liabilities.

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

3.1 DISBURSED AND OUTSTANDING DEBT OF STATE-OWNED ENTITIES AND EXTRA-BUDGETARY UNITS

As at end June 2021, the stock of debt (direct domestic and external borrowing plus on-lent) of public entities amounted to UGX 7,085.4 billion, equivalent to USD 1.992 billion, indicating a 31% decline from UGX 10,273.8 billion (USD 2.8 billion), in June 2020. The reduction was attributed to repayments done on previously existing borrowings, as well as reduced general borrowing in FY2020/2021, occasioned by a Government of Uganda moratorium Prohibiting further borrowing by State owned Enterprises, during the economic downturn and COVID-19 induced lockdown.

Table 4: Non-Guaranteed Debt and other Liabilities of SoEs and EBUs

<i>All in UGX Millions</i>	Financial Years UGX	
	June 2021	June 2020
Domestic Borrowing	132,792	93,436
External Borrowing	146,306	611,754
Other debt (including lease contracts and overdrafts)	1,596,151	1,945,102
GoU On-Lent	5,210,151	7,623,475
Total outstanding debt excluding GoU on-lent loans	1,875,249	2,650,293
Total debt including GoU on-lent loans	7,085,400	10,273,768
Debt ratio (Total debt/total assets)⁸	47.82%	46.54%
Liabilities from grants and GoU contributions	304,227	3,239,667

⁸ This is calculated for those entities with Debt only.

Source: MoFPED

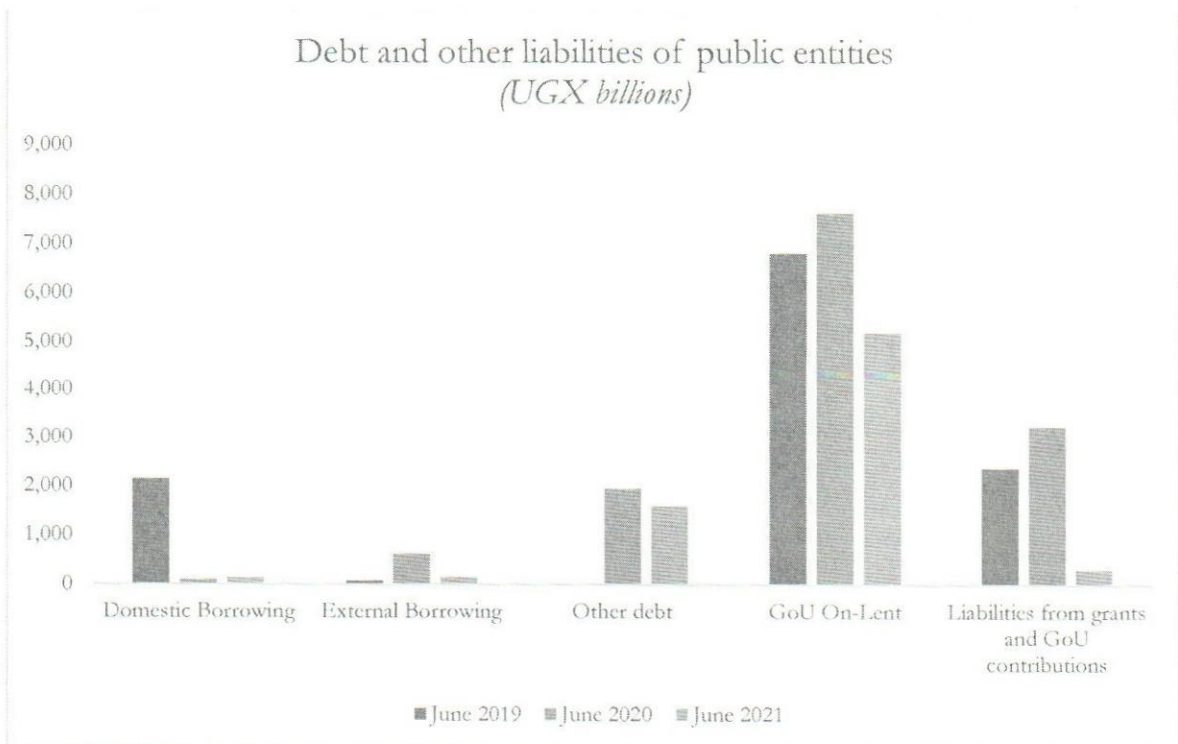
3.2.1 STOCK OF GOU ON-LENT LOANS

The stock of on-lent loans decreased by 31.7% from UGX 7,623.5 billion in June 2020 to UGX 5,210.2 billion in June 2021. The on-lent loans provided to Uganda Electricity Generation Company Limited (UEGC)L and Uganda Electricity Transmission Company Limited (UETCL) accounted for more than 99 percent of the total stock. The financing for these public entities has mainly been necessitated to support the development of priority energy generation and transmission projects in the country. The total stock of GoU on-lent loans accounted for 73.5% percent of the total debt stock as at June 2021.

3.3 GRANTS AND GOU CONTRIBUTIONS

Liabilities of public entities from subsidies, grants and GoU contributions amounted to UGX 304.2 billion at end of June 2021. This account for a 90.6 percent decrease from UGX 3,239.7 billion as at end of June, 2020. The overall average dependency of the public entities on these central government financial sources declined from 84 percent in June 2020 to 4 percent in June 2021. Furthermore, the number of loss-making public entities increased by 0.5%, to 28.2 percent of the total number of entities included in this analysis.

Figure 2: Distribution of debt and other liabilities of SoEs and EBUs



3.4 NON-GUARANTEED DEBT AND OTHER LIABILITIES OF LOCAL GOVERNMENTS

In FY 2020/21, no district Local Government (LG) contracted any debt. Total liabilities to LGs stood at UGX 20,629 million, indicating a 94% reduction from UGX 136,880 million in FY2019/2020. This was attributed to a fall in current liabilities as well as reduction in capital grants. From the observed numbers it was noted that LG debt poses the lowest fiscal risk compared to Guarantees, SoEs and EBUs. Table 5 below demonstrates the status of Contingent Liabilities arising from Local Governments.

Table 5: Contingent Liabilities arising from Local Governments

<i>All in UGX Millions</i>		June 2020 (UGX millions)
Domestic loans	-	1
External loans	-	-
On-lending	-	-
Total outstanding debt including GoU on-lent	-	1
Current liabilities (including payables)	2,849	102,007
Other debts (including lease contracts and overdrafts)	-	-
GoU contributions	-	-
Capital grants	-	26,682
Pension liabilities	10,731	8,190
Total (Implicit contingent liabilities)	20,629	136,880

Source: MoFPED⁹

⁹ Data in the table 4 above is based on 78% of the total analyzed financial statements for local Governments (FY2019/20).

3.5 FINANCIAL STABILIT OF BANKS

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

This sub section shows the position of financial institutions particularly, commercial banks through categories of tests done by the Bank of Uganda.

These are;

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

The domestic financial sector remained stable during FY 2020/2021. As at end of the financial year, June 2021, the asset trend indicated that commercial banks registered strong growth in assets, despite the emergence of several shocks including the COVID-19 pandemic.

The **total domestic assets** of the banking sector rose by 11.0 percent, from UGX 35.8 trillion in June 2020 to UGX 39.8 trillion in June 2021. Asset growth was mainly on account of increase in holdings of government securities which rose by 32.9 percent to UGX 10.2 trillion from UGX 7.7 trillion and a rise in gross loans and advances by 7.0 percent to 16.6 trillion in June 2021 from UGX 15.5 trillion.

The status of Capitalization; the banking sector remained adequately capitalized with the aggregate industry total capital to risk weighted assets ratio and core capital to risk weighted assets ratio at 23.5 percent and 22.1 percent respectively as at end of June 2021. This was well above the respective minimum capital adequacy requirements of 12 percent and 10 percent.

‘The **asset quality** improved over the year ended June 2021, though the BoU credit relief measures have moderated potential deterioration in asset quality. The aggregate commercial bank’s ratio of non-performing loans to gross loans reduced from 6 percent to 4.8 percent, as the stock of non-performing loans decreased by 14.9 percent to UGX 793.0 billion from UGX 931.8 billion over the year ended June 2021’.

The banking industry maintained adequate liquidity buffers, with the ratio of liquid assets to deposits standing at 51.5 percent as at end of June 2021, an improvement from 49.1 percent as at end of June 2020

and well above the regulatory minimum of 20 percent. The Aggregate Liquidity Coverage Ratio (LCR) stood at 243.8 percent, well above the prudential minimum of 100 percent.

4. CONTINGENT LIABILITIES ARISING FROM LEGAL PROCEEDINGS

Compilation and analysis of data on legal claims and court cases allows for identification of key drivers and opportunities for mitigation and, to improve budgeting and reporting practices. Key drivers of these court claims include among others; land compensation cases, contractual disputes, human right cases, and claims of negligence on the part of public officials¹⁰.

Total Stock of quantifiable Legal Proceedings

According to the GoU Consolidated Financial Statement of FY 2020/21, ¹¹ GoU contingent liabilities as a result of legal proceedings have increased to UGX. 160 Trillion as at end June 2021. This indicates a sharp increase of 1,441.2% from UGX 10,407.15 as at end June 2020. The gross exposure analysed were from domestic contingent liabilities for MDA's.¹²

5. CHALLENGES MET DURING THE FIELDWORK

5.1 CHALLENGES

- (i) Some financial statements could not be collected due to on-going audits for FY 2020/21. As such, many institutions indicated that there were delays in conducting and finalising audits of the financial statements by the Auditor General. Therefore, various institutions were not able to provide the required information within the requested timelines;
- (ii) Additionally, there was a high non-compliance rate, and delayed compilation of the responses. Overall, the submission of audited accounts was delayed due to the Covid-19 pandemic, especially for the EBUs and SoEs.

5.2 RECOMMENDATIONS

The scope and coverage of this report should increase to include other Explicit and Implicit Contingent liabilities as follows:

¹⁰ Where contingent liabilities have arisen as a consequence of legal action being taken against the Government of Uganda, the amount shown is the amount claimed and this the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the amount of any award against the Government of Uganda.

¹¹ GoU Consolidated financial statement for FY 2020/21 was produced by Accountant General's Office.

¹² The gross exposure of UGX. 160Tn contains contingent liabilities for MDA's excluding Local Governments. Further to note that gross exposure couldn't be verified from MoJCA due to delayed submission of the required data within the required timelines.

- i) Explicit Contingent Liabilities may include other guarantees for trade and exchange rate risks, Power Purchase Agreements (PPAs), State Insurance Schemes i.e., deposit insurance, crop and flood insurance, war-risk insurance etc., and;
- ii) Implicit Contingent Liabilities may include environmental/ natural disaster relief, bank failures (support beyond state insurance), among others.
- iii) Additional capacity development in fiscal risk analysis on contingent liabilities is required.
- iv) We note that there are certain PPP projects whose implementation begun before the enactment of the PPP act of 2015. These require further analysis as they may contain contingent liabilities, and may pose fiscal risk to Government.
- v) Involve DDCP in the Feasibilities studies of some PPP projects that are currently ongoing. This will aid a clear study and capture of the nature of Contingent liabilities and fiscal risk in the projects.

Management of public debt.

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

ANNEX 2: LIST OF STATE-OWNED ENTERPRISES & EXTRA BUDGETARY UNITS INCLUDED IN THE CONTINGENT LIABILITIES FIELDWORK EXERCISE IN 2020/21

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 3: LIST OF LOCAL GOVERNMENTS INCLUDED IN THE CONTINGENT LIABILITIES
FIELDWORK EXERCISE IN 2020/21.

Local governments
Mukono
Buikwe
Kayunga
Luwero
Nakasogola
Masindi
Kiboga
Kyankwanzi
Wakiso
Mpigi
Butambala
Gomba
Sembabule
Bukomansimbi
Kalungu
Masaka
Kyotera
Lwengo
Jinja
Kamuli
Kaliro
Iganga
Bugiri
Namutumba

Kibuku
Budaka
Pallisa
Soroti
Soroti University
Busia
Busitema Univeristy
Tororo
Manafawa
Bududa
Bulambuli
Sironko
Mbale
Butaleja
Bukedea
Ngora
Serere
Amuria
Katakwi
Mbarara
Mbarara University
Isingiro
Kabale
Kabale University
Rubanda
Kisoro
Rukungiri

Kanungu
Ntungamo
Mbarara
Mubende
Kyegegwa
Kyenjojo
Bundibugyo
Kasese
Rubirizi
Mitooma
Bushenyi
Sheema
Apac
Oyam
Kole
Lira
Lira University
Dokolo
Otuke
Pader
Omoro
Gulu
Gulu University
Pakwach
Nebbi
Zombo
Muni University

Arua
Maracha
Koboko
Yumbe

