ECONOMIC POLICY RESEARCH CENTRE

Towards Sustainable Development

POLICY BRIEF

Issue No. 74 January 2017

By Munyambonera Ezra Francis, PhD and Maria Nagawa

Perspectives and Emerging Issues of Uganda's External Development Finance Landscape

Abstract

During the past 15 years, Uganda has witnessed a significant change in the mode and form of external development finance (EDF) received. Traditionally, Uganda has largely sourced its EDF from the Organization for Economic Cooperation and Development – Development Assistance Committee (OECD-DAC) and from multilateral development institutions. On the other hand, landscape in an environment characterized by the emergence of new donors like China, South Korea, and India, among others. This brief describes the extent of the changes in EDF and how different stakeholders are responding to the changing access to and utilization of external funds.

Introduction

During the implementation of economic reforms, Uganda has been a major recipient of EDF. However, traditional overseas development assistance is reducing with the emergence of important state such as China, India, Brazil, and South Korea. In addition, philanthropies and private organizations are emerging as major source of EDF. For Uganda, these changes new opportunities as well as challenges and risks—in meeting the country's development priorities.

This brief summarizes a study on Uganda's current EDF landscape conducted by Economic Policy Research Center (EPRC) in collaboration with the Ministry of Finance, Planning and Economic Development (MFPED) for the period 2000-2016. The study was commissioned by the African Center for Economic Transformation (ACET). It aimed at reviewing and assessing the changing behavior of Uganda's institutions towards development cooperation in the emerging EDF landscape. More specifically, the study examined how Uganda mobilizes, allocates and manages a variety of external resource inflows, and how the country manages relationships with the development partners (DPs).

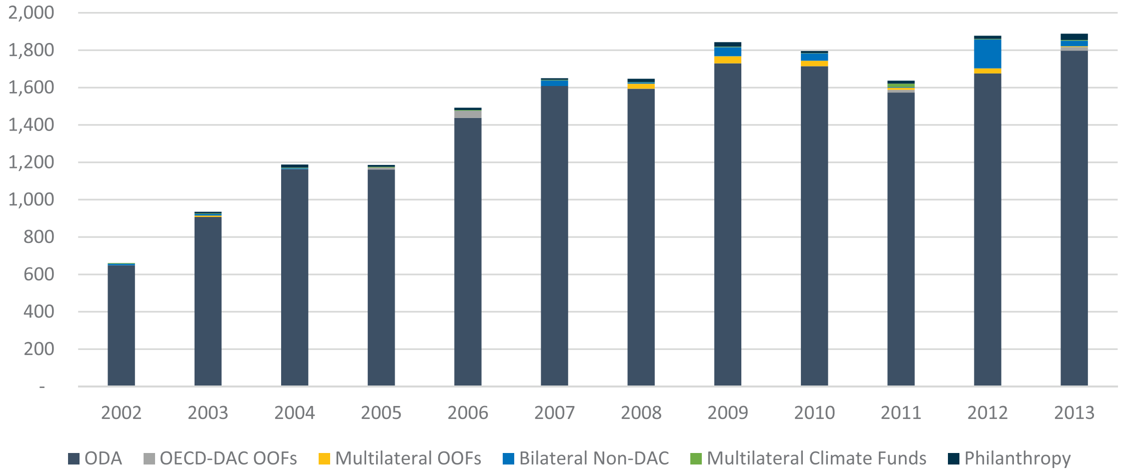
Based on a variety methods including document review, secondary data analysis of EDF, key informant interviews, and case study analysis of projects that had been financed under EDF, the study provides a synthesis of the emerging external financing land scape in Uganda.

The Structure of Uganda's External Development Finance

Figure 1 shows that most of the external development assistance from the OECD-DAC has been in form of Official Development Assistance (ODA). The share of ODA peaks at 99 percent in some years, with non ODA financing averaging about 4.4 percent of total development finance for the period 2002 to 2013. There was however a marked increase of the non-ODA external development financing partly due to the entry of China in the new financing landscape especially on supporting infrastructure development in Uganda[1].

Further analysis of the EDF structure and trends showed that that assistance by the OECD-DAC partners provided to Uganda amounted to about US$ 11.5 billion over the period - 2002 to 2013, and this excludes debt relief (Davies, et.al. 2015). This included 11.442 billion US dollars as ODA and 82 million US dollars as other official flows (OOFs). The amount rose rapidly in the early 2000s, peaking at over 10 percent in 2006. The trend remained positive in nominal terms up to 2013. The Post 2006 period is however was marked with a gradual and significant annual decreases in the share of OECD-DAC external de-

Figure 1: External Development finance per annum to Uganda, 2002-2013 (US$ million)



Sources: OECD CRS (2015), Aid Data (2015)

velopment assistance as ratio of GDP from about 9.4 percent in 2006 to the lower ratio of about 4.5 percent in 2013.

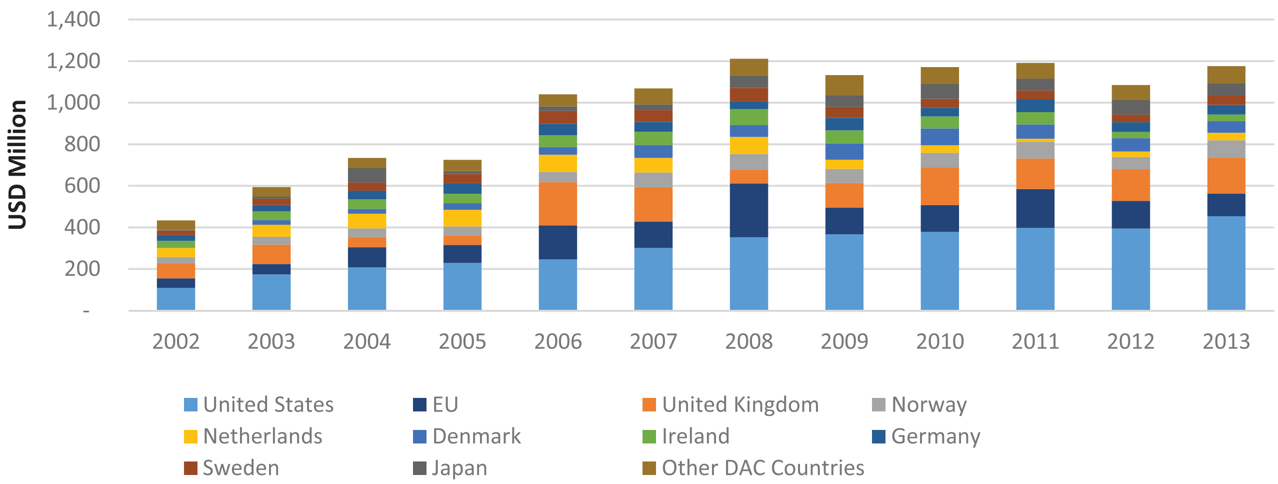
Main providers of Uganda's EDF.

The main providers of EDF are; Unites States, United Kingdom and EU have been dominant in extending development assistance to Uganda[2]. Figure 2 shows the structure of the main providers of EDF to Uganda over the years 2002 – 2013.

How Uganda has been accessing external development finance in the past decade in light of the changing external environment

Severals laws, institutions, and policies exist to mobilise and coordinate inflows of EDF from all development partners. The overarching guide is the Constitution, which gives sole power to receive EDF to MFPED. Despite this legal constraint, MDAs and local government bodies continue to receive financing in the form of grants from various development partners. While

Figure 2: Funding from OECD-DAC partners, 2002-2013: Main Providers



Source: OECD, MPI, & Development assistance data (2015) the Minister of MFPED has to seek Parliamentary approval before entering into any legal contract with development partners, some respondents noted that at times proposals are presented to Parliament as a *fait accompli*. Respondents also reported that other institutions involved in mobilization are NPA, which ensures EDF falls within development plans and the Ministry of Justice and Constitutional Affairs, which provides legal opinions on borrowing contracts.

Ttraditionally, the government of Uganda (GoU) has been obtaining most of its EDF from the World Bank, African Development Bank and other bilateral and multilateral lenders in the form of budget support, sector support, project-specific support, and technical assistance. This funding has been largely concessional or in the form of grants. On the other hand, current funding from new development partners (DPs) often comes in the form of project-specific support and technical assistance, is semi-concessional, and is not subject to budgetary oversight. During consultations, respondents noted that although government had limited control over procurement and management of projects financed by EDF from new DPs, the projects were often better implemented than those undertaken with traditional DPs. Additionally, the appearance of new DPs has opened up alternative opportunities for financing, including from traditional DPs. For example, the International Monetary Fund (IMF) lifted its US$ 3 billion cap on financing for Uganda while other traditional institutions introduced new EDF instruments such as blended financing.[1]

Adaptability of government systems to influence the intermediate targets of external resource inflows and to ensure efficient allocation of resources.

Prior to 2010, accessing external resources by the GoU was guided by the Poverty Eradication Action Plan (PEAP), Subsequently, the country has adopted a national Vision 2040 with the aim of transforming Ugandan society from a predominantly low-income peasant country to a competitive upper middle-income country within 30 years through the implementation of National Development Plans (NDPs). Government officials indicate that the NDPs are implemented through ministry drafted Strategic Investment Plans (SIPs) that donors can "buy into"[2]. Furthermore, the government has put in place debt sustainability frameworks such as the Medium Term Expenditure Framework, the Medium Term Fiscal Framework and the Debt Strategy that require government to largely borrow on highly concessional terms especially for projects with long-term returns on investment.

[1] Blended financing allows countries to receive a grant that can be used to finance a loan obtained on the international markets.

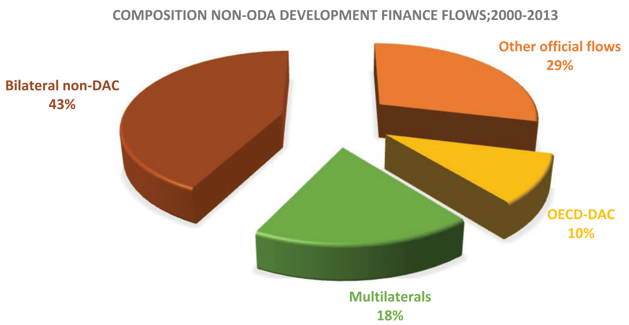
[2] Donors are expected to target their funding within the SIP frameworks.

However, despite the establishment of institutional frameworks, polices, mechanisms and processes for borrowing, government still falls short in aligning the NDPs to the national budget; leading to poor, untimely, or even non-implementation of externally funded projects. Government's efforts at institutionalizing EDF mobilization are further hampered by poor coordination, duplication of projects, corruption, weak implementation capacity, and prolonged procurement processes, among others. As a result of these problems, externally funded projects are characterized by low absorption/utilization of financial resources. On the other hand, institutions assert that they play a part in advocating for responsible borrowing and effective management of EDF and that their efforts have resulted in increased budget transparency.

Engaging and managing the new state and non-state actors

As earlier noted, the portfolio for new DPs is expanding while that of traditional DPs is decreasing. This is partly because new DPs allocate large amounts of financial resources—sufficient to fund expensive infrastructure projects that traditional DPs have historically been unwilling to finance. Also the repayment requirements for new DPs are more flexible with fewer conditionalities. Figure 3 shows the composition of new DPs development assistance to Uganda during 2000-2013. Of the total non-DAC assistance, Over 90 percent has been contributed by China and especially for infrastructure development in transport and electricity generation.

Figure 3: Total non - ODA finance to Uganda, 2002-2013



Source: Source: OECD CRS (2015)

Previous research confirmed that non-DAC funding to Uganda have been bilateral in nature and amounted to 337 million US dollars between 2002 and 2013 and constituting about 1.7 percent of external development finance over the period.[3] Of this funding China provided about 99 percent between 2002 and 2013, amounting to US$ 332 million; of which 66 million US$ was grants and 266 million US dollars were loans. Other active non-DAC funders include Kuwait, United Arab Emirates and Saudi Arabia; however, the overall funding for the latter category was small. Box 2 gives a projection on Uganda's borrowing from non-DAC development partners.

Conclusions and Key Policy Recommendations

Government has established institutional mechanisms, systems and processes for soliciting and managing EDF, which are equally applied to a certain degree to both traditional and non-traditional development partners. The shift has been in the modalities applied when dealing with the different types of DPs especially on borrowing terms, but the strategy remains the same. The problem however, lies in government's weakness to fully execute its own systems. Nevertheless, the arrival of new development partners has provided alternatives for financing development projects that were previously unavailable and loosened the purse strings of traditional development partners who have now come up with new financing tools—blending—and lifted the borrowing cap that previously restricted the country's access to EDF. While we have observed that the country's dealings with the new DPs are less transparent and that the new DPs impose conditions on procurement and management, the excitement for new financing options is discernible. Traditional DPs apply strict conditionalities, rendering their projects more difficult to implement and while they boast open bidding processes, government officials criticize the dominance of foreign firms in the implementation of traditional DP funded projects. Finally, it has been observed that government is not adequately leveraging the availability of more financing options to its advantage and that the low absorption of EDF has negative implications on the achievement of the key national development objectives and may affect the government's ability to transform the economy from a low-income country to a medium income country by 2020.

In the new EDF landscape, government should aim at strengthening systems for efficient and effective loan acquisition and coordination amongst the institutions that track development finance flows and establish measures to improve project implementation, including improved procedures in regard to project selection, appraisal and design, cost benefit analysis, portfolio reviews, and monitoring and evaluation.

(Endnotes)

1 Davies, F.; Long, C. & Wabwire, M., (2015). Age of Choice: Uganda in the New Development Finance Land Scape. Over Seas Development Institution pending report.
2 Aid Data (2015), "Track Emerging Donors", BETA', Open Data for International Development, Retrieved 6th August, 2015 from: http://aiddevelopment assistancedata.org/track-emerging-donor partners.
3 Davis et al (2015).

Recent Policy Briefs

"Has the Common External Tariff Sensitive list of Products for the EAC Generated Intra-export Trade?"
No. 73 August 2016
Isaac M.B. Shinyekwa, Martin Luther Munu and Miriam Katunze

"Why Strong Farmer Groups are Ideal in the Marketing of Rice in Eastern Uganda"
No. 72 July 2016
Mildred Barungi, Tonny Odokonyero, and Swaibu Mbowa

"Supply of Improved Rice Seed in Eastern Uganda: The Gap and Required Investment"
No. 71 July 2016
Tonny Odokonyero, Mildred Barungi, Swaibu Mbowa

About the Author

Munyambonera Ezra Francis is a Senior Research Fellow at the Economic Policy Research Centre, Kampala, Uganda.

Maria Nagawa is a Research Analyst at the Economic Policy Research Centre, Kampala, Uganda.

The Economic Policy Research Centre (EPRC) is an autonomous not-for-profit organization established in 1993 with a mission to foster sustainable growth and development in Uganda through advancement of research –based knowledge and policy analysis.

Address:
Economic Policy Research Centre
51, Pool Road, Makerere University Campus,
P. O. Box 7841 Kampala, Uganda
Tel: +256414541023/4 Fax: +256414541022
Email: eprc@eprcug.org, Website: www. eprc.or.ug

Learn more at:
www.eprcug.org TWITTER:@EPRC_official www.facebook.com/EPRCUganda eprcug.org/blog