K4D Knowledge, evidence and learning for development

Principal Lenders to Uganda

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Question

Provide an overview of Uganda's external debt for:

a) *the types of lending products used (loans, guarantees, etc.);*
b) *the financial terms of these products (interest rates, tenors, grace periods if any, service fees etc);*
c) *where feasible, the grant elements of these products; and*
d) *non-financial terms that may apply to the loans (e.g. collateralisation, requirements to purchase goods and services from certain providers, requirements relating to which legal systems are used to resolve disputes, and stringency of associated social, environmental standards).*
e) *overview of Kenya's external debt covering the above items and comparison of external debt structure between Uganda and Kenya.*

The review will provide information on:

- Public debt composition of Uganda, domestic and external borrowing, guarantees and grants (data permitting)
- Uganda's external debt figures in terms of lender, sector and currency composition and general overview of financial terms by lenders on recently signed external debt loan agreements (data permitting in general terms, data not available in loan terms)
- Public debt composition of Kenya, domestic and external borrowing (data permitting) and external debt figures in terms of lender composition and general overview of financial terms (data permitting in general terms)
- For Uganda, World Bank Group (WBG) (40% of total debt stock), African Development Bank Group (AfDB) (16% of total debt stock), China (25% of total debt stock) and Japan (4% of total debt stock) lending activities are reviewed.
- External lenders' non-financial terms according to the lenders' applicable general guidelines on project procurement, jurisdiction, negative pledge and other miscellaneous issues (data permitting in general terms, data unavailable in loan terms).

Contents

1. Summary

This report provides a summary of public debt of Uganda specifically focusing on its external debt. A similar but limited search for Kenya is also presented as comparison. The types of lending products in terms of loan, grant, technical assistance and loan guarantees; the financial terms of these products (interest rates, tenors, grace periods, applicable commitment and service fees and non-financial terms available are presented). As a country comparison, external borrowing of Kenya is also covered in a similar but limited approach.

Public Debt of Uganda is presented in Section 2 in terms of domestic and external financing in different lending products. Aiming to be a middle-income country in its long-term plan, Uganda's key borrowing figures are:

- The total public debt stock is USD 11.52 billion as at end December 2018, increased from USD 10.24 billion as at end December 2017. External financing is dominated by concessional borrowing (30%), and semi/non-concessional (25%).
- The nominal value of public debt as a percentage of GDP stood at 41.8% as at end December 2018. The Present Value (PV) of external debt to GDP increased from 30.1 percent as at end December 2017 to 31.7 percent at end December 2018
- The total outstanding stock of government domestic debt at cost increased by 17.7% (UGX 2,153 billion) from UGX 12,180 billion at the end of December 2017 to UGX 14,333 billion at the end of December 2018.
- Domestic financing is executed mainly through issuance of longer-term securities with fixed interest rates, while external financing is to be sourced from concessional financing sources, making use of the currently large undisbursed balances from both multilateral and bilateral creditors in the external debt portfolio.
- External debt stock composition by creditor type is dominated by multilateral creditors with 65%; Bilateral creditors hold 34 % and commercial banks with 1% of the stock.
- For multilaterals, International Development Association (IDA) and African Development Fund (AfDF) account for a combined total of 86 percent of the current debt stock. For bilateral creditors, the biggest proportion of the current stock is from China (75%) while French Development Agency (AFD) (France), UK Export Finance (UKEF), Japan International Cooperation Agency (JICA) and others account for the remaining 25%.
- Grant contribution in 2018 to Uganda was USD 137.29 million from external lenders. The share of grants of the new external commitments as at end December 2018 decreased annually by 75%. The highest amount was received from IDA (45% of grand total) and it is followed by European Union (EU) with a share of 21% and German Development Bank (KfW) 16%. Technical assistance support managed outside of the government system in 2018 amounts to USD 310.95 million from the lenders.
- There are 7 active loan guarantees in total where total amount guaranteed to is USD 55.1 million. The exposure to disbursed and outstanding guaranteed debt as at December 2018 amounted to USD 19.9 million.

Section 3 represents the search for external lending in terms of available data provided by the lenders websites. For Uganda, WBG (40% of total debt stock) and AfDB (16% of total debt stock) are the main multilateral lenders whereas China (25% of total debt stock) and Japan (4% of total debt stock) bilateral credits are analysed as the bilateral lenders. The current active loans with project names, available financial terms and non-financial terms are presented in this section.

Section 4 covers the external lending figures of Kenya in a similar but a limited approach. As these lenders are providing similar financial and non-financial terms applicable to these countries, the general characteristics of the loan terms provided to Kenya is like the ones in Uganda.

As a country case comparison example, section 4 presents Kenya's external debt figures which can be summarized as:

- Kenya's national government public and publicly guaranteed debt is USD 51.81 billion as at end-December 2018, equivalent to 52.7 per cent of GDP in nominal terms. (Around five times bigger than Uganda's debt)
- Kenya's debt to GDP ratio increased by 28% over the last 5 years (2012-2017), while most of her peers' debt increased relatively by higher proportions.
- Kenya's external debt component is at 25.6 percent of GDP (USD 25.2 billion) and domestic debt equivalent to 24.7 percent of GDP (USD 24.3 billion).
- The domestic debt market is dominated by commercial banks as the main investors for government securities. As at end December 2018, commercial banks held 50.6 percent of total outstanding securities.
- External borrowing was to comprise concessional, semi-concessional and commercial in the ratio of 20:30:10 as of end of 2017. Multilateral debt accounted for 8.7 percent of GDP, out of which, IDA remains the largest multilateral creditor accounting for 5.4 percent of GDP (USD5,275 million). Outstanding external commercial debt and fixed coupon is equivalent to 8.7 per cent of GDP and debt from bilateral creditors is 8.2 percent of GDP.
- As of June 2018, Kenya's external lenders including commercial banks, China and WBG-IDA were the main sources of debt. In Belt and Road Initiative beneficiary terms from Chinese bilateral lending, Kenya is not categorized as a high-risk country however, there are other debt sustainability concerns in terms of Chinese increasing contribution to Kenya.

Due to the specific nature of this review, the main sources of information used were the websites of the country's statistics, financial and budget performance reports, lenders' websites and some academic literature and reviews to provide background information and other comprehensive reviews. There is very limited information on the agreement specific terms for non-financial issues for bilateral lenders. Financial and non-financial terms loan by loan was not available for some lenders. Based on the available information in lender websites, the guidelines of WBG and AfDB Group are reviewed in this report.

2. Public Debt of Uganda

Uganda envisions graduating from the category of least developed countries to a lower middle-income country with a GDP per capita of USD 1,039 by 2020, and to an upper middle-income country with a GDP per capita of 9,500 by 2040. The sixth series of the National Development Plan is currently under implementation and is expected to deliver the country to middle income status by 2020. To achieve this goal, Uganda has focused its strategic direction towards improving the country's competitiveness. This Plan identified three key growth opportunities (agriculture; tourism; minerals, oil and gas) and two fundamentals (infrastructure and human capital development). Investment in these priority areas was expected to have the greatest multiplier effect on the economy.

The Medium-Term Debt Management Strategy for 2018-2022 of Uganda's Ministry of Finance, Planning and Economic Development (MoFPED) has the following characteristics definition for 2019: '*External financing is dominated by concessional borrowing (30%), and semi/non-concessional (25%). Domestic financing will be executed mainly through issuance of longer-term securities with fixed interest rates, while external financing will continue to be sourced from concessional financing sources, making use of the currently large undisbursed balances from both multilateral and bilateral creditors in the external debt portfolio. New infrastructure projects will mainly be financed from non-concessional and commercial sources. Given the size of infrastructure projects with a large external content, the gross financing need will largely be met through external borrowing. Domestic borrowing will only be used conservatively and as such, Government will scale back on domestic financing relative to external borrowing in the medium term for net debt financing. However, due to the large domestic debt redemptions each year, gross domestic financing remains high and is expected to remain so, in absolute terms.'* (MoFPED, April 2018, pg. 25)

Total public debt stood at 40 percent of GDP; a level comparable to Uganda's peers in East Africa. Since 2014, the authorities have switched the financing mix to rely more on foreign than domestic borrowing to meet the gross financing need. Despite sizable fiscal gross financing needs averaging 11.5 percent of GDP over the past five years, Uganda's external risk of debt distress [1]remains low. This shift in the financing mix meant faster growth in external public debt, which at the end of 2017 reached 26 percent of GDP, while domestic debt stabilized at around 14 percent of GDP. External financing is largely contracted on highly concessional terms, with long grace periods and long maturities, which reduces Uganda's debt burden in present value terms. The Government was prudent in avoiding international bond issuances over the past few years, when global interest rates were low. Therefore, the debt repayment profile is smooth, with no external principal repayment spikes that raise rollover risks, as in some other East African countries. (WBG Uganda Economic Update, 2018, page 10, Executive Summary)

The latest results of the Debt Sustainability Analysis show that Uganda has moved from low to moderate risk of debt distress. Despite this, Uganda`s external public and publicly guaranteed debt remains sustainable in the medium and long term. The major risks to the outlook of external debt sustainability relate to poor performance of exports as well as an increased rate of debt accumulation, particularly on non-concessional terms. (MoFPED, April 2018)

Total Public Debt

Figure 1 shows the evolution of public debt (both external and domestic) in billions of US Dollars between 2005/6 and December 2017.

[1] Under the joint Debt Sustainability Framework WBG and IMF, consist of: (i) an analysis of a country's projected debt burden over the next 10 years and its vulnerability to economic and policy shocks—baseline and stress tests are calculated; (ii) an assessment of the risk of external and overall debt distress , based on indicative debt burden thresholds and benchmark, respectively, that depend on the country's macroeconomic framework and other country-specific information.

See Figure 1: Evaluation of Public Debt, MoFPED (2018:56), https://www.finance.go.ug/sites/default/files/Publications/BTTB%20FY2018.19.pdf

The total public debt stock increased by 12.5 percent to USD 11.52 billion as at end December 2018 from USD 10.24 billion as at end December 2017. The nominal value of public debt as a percentage of GDP stood at 41.8% as at end December 2018.

The Present Value of external debt to GDP increased from 30.1 percent as at end December 2017 to 31.7 percent at end December 2018.[2] The external debt stock increased by USD 0.78 billion to USD 7.66 billion by end December 2018 from USD 6.88 billion at end December 2017. The increase was mainly due to the external loans provided by China (25 percent) and WBG (40 percent).

Table 1:Total Public Debt by Source Category as at 31st December 2018 (USD Billion)

Creditor Category	Dec-15	Dec-16	Dec-17	Dec-18	Shares of Debt Stock
External	4.8	5.47	6.88	7.66	66.5 %
o/w Multilateral	3.69	4.06	4.68	5.02	43.6%
o/w Bilateral	0.94	1.33	2.03	2.59	22.5%
o/w Private Banks		0.07	0.17	0.05	0.4 %
As a % of GDP	20.8%	23.6%	27.4%	27.8%	
Domestic	2.92	3.25	3.35	3.89	33.5%
o/w Treasury Bills	0.83	1.05	0.81	0.97	8.4%
o/w Treasury Bonds	2.09	2.2	2.55	2.89	25.1%
As a % of GDP	12.4%	13.4%	13.3%	14.0%	
Total Debt	**7.73**	**8.72**	**10.24**	**11.51**	
As a % of GDP	**33.2%**	**37.0%**	**40.70%**	**41.8%**	

Source: MoFPED (March 2019: 4), Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2018/19 https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20GRANT%202019.pdf

Domestic Debt

There are two forms of domestic financing in Uganda;

i) use of government savings that accumulate over time and
ii) issuance of government securities in the domestic market.

Government of Uganda started issuing domestic debt for fiscal purpose in financial year (FY) 2012/13. Government has in the past five financial years cautiously issued both Treasury bills (T-

[2] Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2018/19

Bills) and bonds to finance the deficit in addition to using government savings.[3] The limit set out in the Public Debt Management Framework, 2013 is the T-Bills to T-Bonds ratio is 30:70.

Domestic Debt Services: Government domestic debt has more than doubled within the last 5 years and continues to grow at a high rate with the debt stock increasing by UGX 2,153 billion from UGX 12,180 billion to UGX 14,333 billion in one year. The total outstanding stock of government domestic debt at cost increased by 17.7% (UGX 2,153 billion) from UGX 12,180 billion at the end of December 2017 to UGX 14,333 billion at the end of December 2018.

Principal Payments (Redemptions): As at end December 2018, UGX 2,457 billion had been cleared in redemptions. This is a 11.3 percent decline from UGX 2,771 billion as at end December 2017. The decline in redemption is attributed to the government strategy to go for long term financing as opposed to short term.

Domestic Interest Payments: Domestic interest payments as at 31st December 2018 had so far reached UGX 970 billion. The interest payments are expected to reach UGX 2,014 billion by end of FY 2018/19 as compared to UGX 1,936 billion in FY 2017/18, a 4 percent increase.

Table 2:Stock of Domestic Debt at cost as at 31 December 2018

	End December 2017		End December 2018	
	UGX bn	**USD mn**	**UGX bn**	**USD mn**
T-Bills	2,937	808	3,591	965
% of Domestic Debt	24%		25%	
Fiscal T-Bonds	8,284	2,279	8,9093	2,393
Recapitalisation T-Bonds	960	267	960	258
Total T-Bonds	9,244	2,543	10,742	2,888
% of Domestic Debt	76%		75%	
Total Fiscal Domestic Debt	**12,180**	**3,351**	**14,333**	**3,853**

Source: MoFPED (March 2019: 6), Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2018/19, https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20GRANT%202019.pdf

Market developments: Interest rates on government securities gradually declined during FY2017/18, partly attributed to the accommodative monetary policy stance as well as expectations of lower domestic inflation.

The 91-day, 182-day and 364-day Treasury bill annualized yields fell from 10.7, 11.8, and 13.6 percent respectively in June 2017 to 8.4, 8.5 and 9.0 percent in December 2017. (Figure 2) The

[3] The borrowings have been within the limits given in the annual macroeconomic framework and consistent with the thresholds stipulated in the Public Debt Management Framework 2013.

yields however increased marginally in March 2018 to 8.7, 9.0 and 9.6 percent respectively partially due to the approval of additional domestic financing.

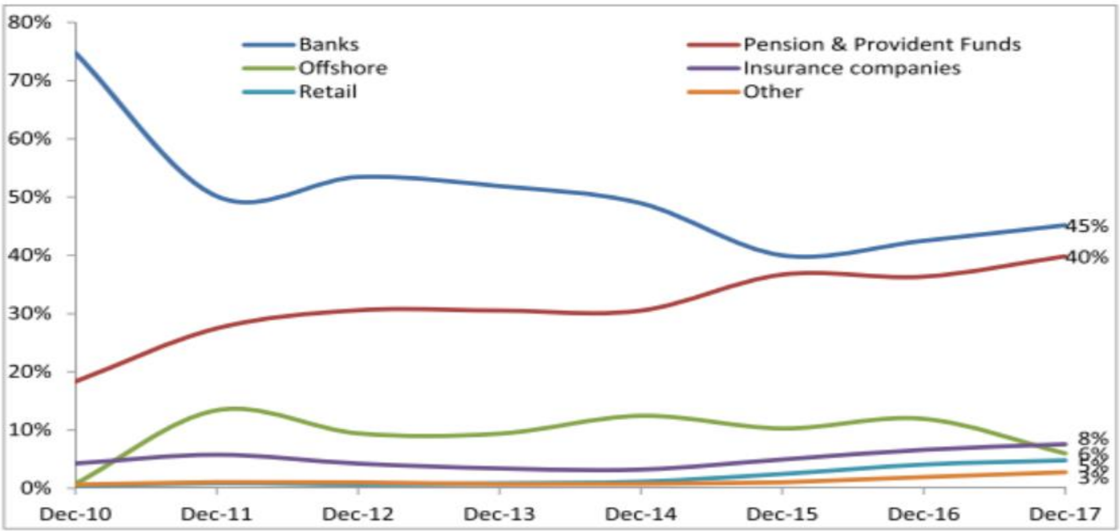
Treasury Bonds followed a similar trend during the course of FY 2017/18. The annualized yields for the 2-year, 5-year, 10-year and 15-year Treasury Bonds fell from 12.8, 14.2, 16.0 and 16.4 percent respectively in July 2017 to 11.2, 12.6, 14.4 and 14.4 in April 2018.

While yields spiked in June 2018 due to over issuance of domestic debt, yields edged downwards between July 2018 and December 2018 across all tenors with the average weighted yields to maturity for December 2018 at 13.3% for the one-year T-Bill compared to 14.5% in June 2018. They are however, higher than the yields in December 2017 which stood at 9% for the one-year T-Bill. The spike in yields started to gradually subside because of the introduction of the single price auction system and an increase in liquidity in the market in FY 2018/19. (MoFPED, 2019, Public Debt Statistics, Report on Public Debt, Guarantees, Other Financial Liabilities and Grants for Financial Year 2018/19)

See: Figure 2: Evolution of key Interest Rates, March 2016-April 2018, MoFPED (2018:26), https://www.finance.go.ug/sites/default/files/Publications/BTTB%20FY2018.19.pdf

Domestic debt by holder: Domestic banks increased the proportion of domestic debt they were holding by 3% and pension and provident funds by 4% respectively for the period of December 2016 to December 2017. Foreign investors have decreased their share from 12% to 6% in the same period.[4]

Figure 3:Domestic Debt Distribution by Holdings



Source: MoFPED (March 2018: 11), Report on Public Debt, Guarantees, Other Financial Liabilities and Grants for Financial Year 2017/18,

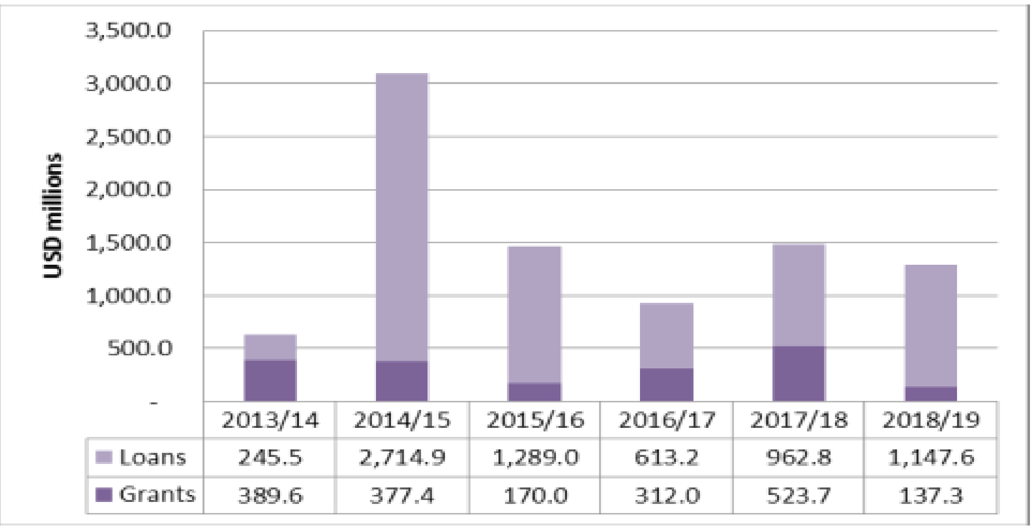
[4] Based on the OECD 2018 Survey on liquidity in secondary government bond markets the median average of government debt is held domestically, with substantial differences across countries is 60% offshore.

https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20%20GUARANTEES%20AND%20OTHER%20FINANCIAL%20LIABILITIES%20AND%20GRANTS%20FOR%20FINANCIAL%20YEAR%202017-2018.pdf

External Debt

Uganda's external stock of debt outstanding and disbursed has continued to increase over time. Over the years, commitments of new external financing to Uganda has been volatile. During FY 2018/19 reported period, USD 1.28 billion was mobilised in external financing. Of this, USD 1.15 billion (89%) was in the form of loans and USD 0.13 billion (11 %) in the form of grants. Compared to FY 2017/18, there was a 14% reduction in the total amount of new financing. This reduction was mainly attributed to the 26 percent drop in grant financing as can be observed in Figure 4.[5]

Figure 4:Trends in new external resources from FY 2013/14 to FY 2018/19



Source: MoFPED(March 2019: 16), Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2018/19, https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20GRANT%202019.pdf

The following are the major instruments that form the basis of Uganda's external assistance that has been contracted over the years:

i. Budget Financing: This is where funds/resources from a lender are transferred directly to the consolidated fund of the recipient country following the fulfilment of agreed conditions for disbursement. Budget financing is normally in two forms namely; general budget support and sector budget support (earmarked/ targeted towards a specific sector). The financial resources thus received are part of the national resources of the country and are consequently used in accordance with the public financial management system of Uganda.

[5] The decline in the grant financing is partly due to Bilateral DPs preference to channel their assistance outside the government systems. The loans approved in the financial year were scrutinized by the different levels of Public Investment Management Systems (DIMS) framework and are in line with the national priorities as spelled out in the Second National Development Plan.

ii. Project Financing: Under this modality of financing, both Government of Uganda and the lender enter into an agreement and agree on a set of inputs, activities and outputs to reach specific outcomes within a defined area, budget and timeframe.

iii. Export Credit Financing: This is where the borrower and a lender's Export Credit Agency pre-identify a contractor to implement a project largely in the borrower's jurisdiction. The main objective of this financing is to support domestic companies of the DPs countries to carry out international export operations and other activities. The financing facilitates the companies to remove the risk of uncertainty of exporting to other countries and underwrites political risks and commercial risks of overseas investments, thus encouraging exports and international trade. For the case of Uganda, this arrangement has been used to finance public investment projects implemented by such companies.

iv. Technical Assistance: This basically entails the transfer of ideas, knowledge, practices, technologies or skills from either development partner identified experts or procured experts under respective projects. This knowledge transfer is mainly for policy development, institutional development, capacity building, and project or programme support.

v. Off Budget Financing: This covers all Official Development Assistance (ODA) not channelled through Government systems and structures both in form of disbursement and management. The related project activities and finances are mainly channelled through NGOs, CBOs or directly implemented by lenders.

Among these instruments, a total of UGX 8,023.5 billion of external resources is projected to support the budget in FY2018/19. Of this, UGX 7,734.5 billion (96.4%) is in the form of project support, while the remaining UGX 289 billion (3.6%) is budget support. Budget support is projected in the budget preparations of FY2019/2020 to amount to UGX 287.7 billion in FY 2019/20 and will remain broadly at the same level in FY2020/21. Project support is expected to increase to UGX 8,315.7 billion in FY2019/20 and decline over the medium term. The decline in project support over the medium term reflects the planned completion of some of the big infrastructure projects. (MoFPED, 2019, Public Debt Statistics, Report on Public Debt, Guarantees, Other Financial Liabilities and Grants for Financial Year 2018/19)

Current External Debt Composition

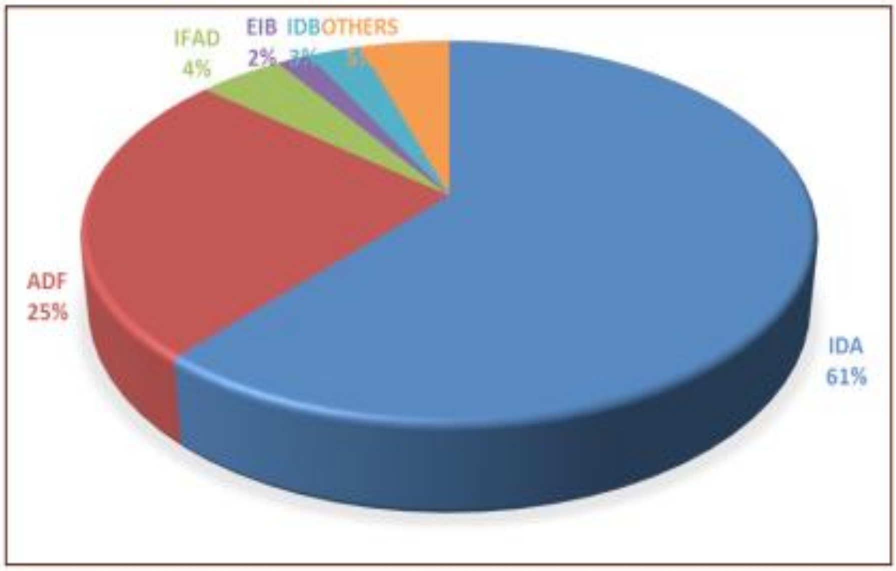
As at 31st December 2018, the outstanding portion of the country's debt, including arrears, that is borrowed outside Uganda stood at USD 7.66 billion representing a growth of 11 percent compared to USD 6.88 billion at end December 2017. The increment in stock is attributed to disbursements from Exim Bank of China and WBG loans, as well as foreign exchange rate movements.

By Creditor Category:

External debt stock composition by creditor type is dominated by multilateral creditors with 65 percent; Bilateral creditors hold 34 percent and Commercial banks with 1 percent of the stock.

For multilaterals, International Development Association (IDA) and African Development Fund (AfDF) account for a combined total of 86 percent of the current debt stock. The other multilateral creditors are Islamic Development Bank (IDB), International Fund for Agricultural Development (IFAD) and European Investment Bank (EIB).

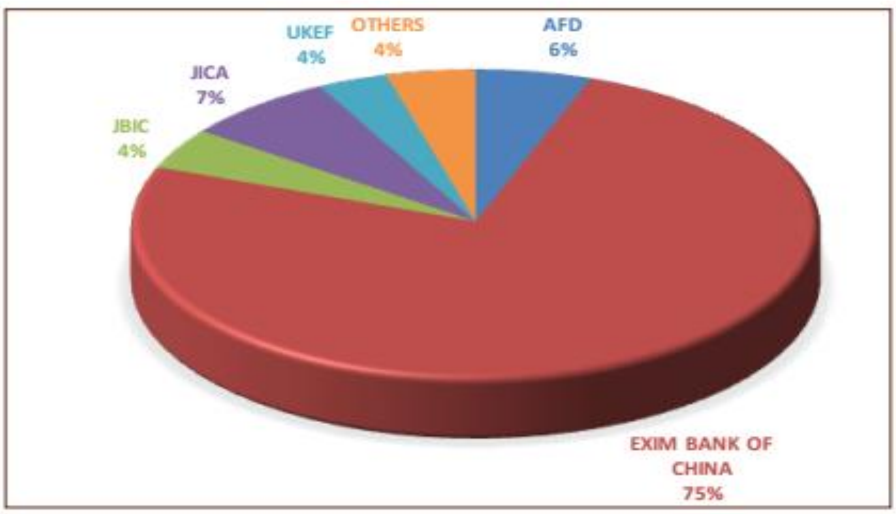
Figure 5: Stock of debt by Multilateral Creditors



Source: MofPED (March 2019: 13), Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2018/19, https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20GRANT%202019.pdf

For bilateral creditors, the biggest proportion of the current stock is from China (75 %) while French Development Agency (AFD) (France), UK Export Finance (UKEF), Japan International Cooperation Agency (JICA) and others account for the remaining 25 %. The high stock of debt from China is largely due to the financing for Karuma & Isimba Hydro Power projects. Commercial banks share is dominated by PTA (recently, Eastern and Southern African Trade and Development Bank) & Standard Chartered Bank.

Figure 6: Stock of debt by Bilateral Creditors

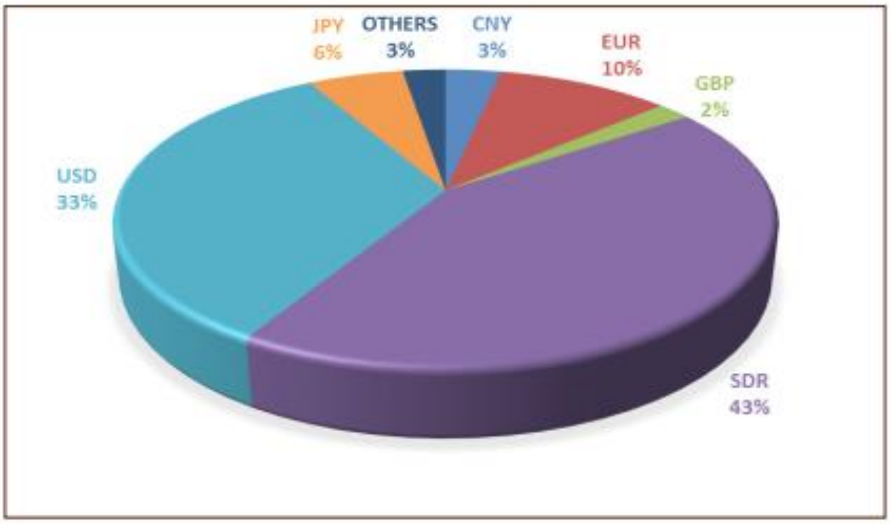


Source: MoFPED (March 2019: 12), Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2018/19, https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20GRANT%202019.pdf

By Currency Composition:

Because the current debt stock is largely from multilateral creditors, Uganda's external debt stock is denominated mainly in SDR (43 %) and USD (33 %). Other currencies such as the EUR, GBP and JPY are slowly becoming prominent in the current external debts stock of Uganda. The other borrowing currencies for Uganda are Korean Won, Iraqi Dinar, Islamic Dinar, Saudi Riyal and Kuwait Dinar.

Figure 7: Currency Composition of External Debt

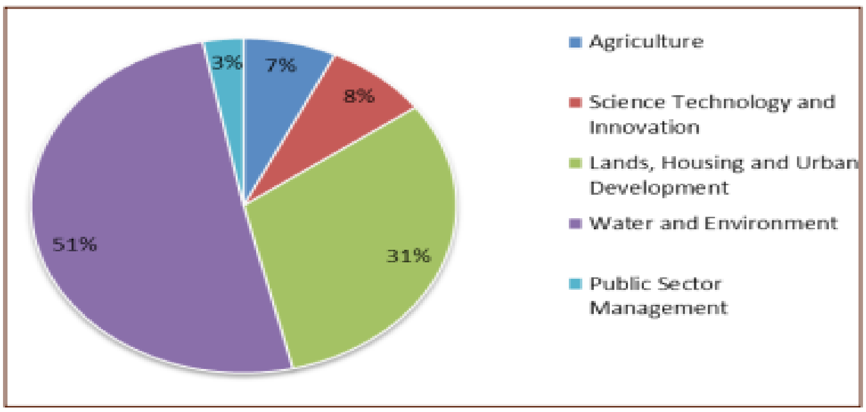


Source: MofPED (March 2019: 13), Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2018/19, https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20GRANT%202019.pdf

By Sector:

During FY 2018/19, 47 percent of the new loans approved by parliament were directed towards the water and environment sector mainly to improve on water supply and improve sanitation in different parts of the country. Lands, housing and urban development sector comprised of 31 percent of the loans approved for basically additional financing to enhance the institutional performance of local governments to improve urban service delivery. The energy, water, environment and transport have continued to register highest loan disbursement as compared to others accounting for 42 percent, 20 percent and 16.8 percent respectively.

Figure 8: New loans approved by parliament by sector as at 31st March 2019



Source: MoFPED (March 2019: 18), Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2018/19, https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20GRANT%202019.pdf

Grants, Technical Assistance and Guarantees

Grants

In FY 2018/19, a total of USD 137.29 million was received from external lenders. The share of grants of the new external commitments as at end December 2018 decreased by 75 percent as compared to USD 523.7 million received in FY 2017/18. (Figure 4) The highest amount was received from IDA of approximately USD 61.68 million (45% of grand total). It is followed by European Union (EU) with a share of 21% and German Development Bank (KfW) 16%. The energy and mineral development sector received the highest amount of grants in FY 2018/19 as at 31st March 2019, with 25 percent out of the total amount. This was followed by lands, housing and urban development and works sectors each getting 18 percent of the total. (MoFPED, 2018)

Technical Assistance

Technical Assistance (TA) in the form of services of technical experts and trainings of mainstreamed staff continues to present an important share of ODA to Uganda. TA to Uganda has been in three forms:

a) short term TA for adhoc technical matters (less than 6 months);
b) long term TA for policy advice or capacity building support, often experts based in ministries and agencies, financed through programmes or provided in-kind by a technical cooperation;
c) long-term technical assistance linked to externally financed projects, often in the form of project implementation support units.

Although a TA policy is in place, tracking the volume of TA to sectors continues to be a major challenge in Uganda. TA and the track record of the data is often managed by the lenders while the sectors usually have a limited role in the procurement, recruitment and payment of TA experts. (MoFPED, March 2019)

As per the OECD data, there has been a continuous increase in gross disbursements of experts and TA to Uganda since 2012. An amount of USD 56.73 million had been received as gross disbursements across sectors for calendar year 2017. This shows an increase of USD 10.22 from 2016. The figure below highlights total exports and other TA to Uganda for the last 9 years from the Development Assistance Committee (DAC) countries.

Government continues to receive significant TA support. Available information of MoFPED indicates that there has been a 22 percent increase in the amount of technical assistance received. Support managed outside government system in FY 2018/19 so far amounts to USD 310.95 million from the lenders. The support is largely directed towards the health sector with USAID as the largest Partner with USD 181.39 million (equivalent to 58%). Health sector received a lion's share of off-budget support.

Loan Guarantees

There are 7 active loan guarantees in total where the Government of Uganda acts as the loan guarantor to the beneficiary banks. IDB is the top guaranteed creditor, followed by Arab Bank for

Economic Development in Africa (BADEA) as shown in Table 3. The total amount guaranteed to amount USD 55.1 million. The exposure to disbursed and outstanding guaranteed debt as at December 2018 amounted to USD 19.9 million (UGX 75 billion). Two loan guarantees, totalling to USD 20 million were approved in FY 2018/19 as at 31st March 2019. The two loans are for Uganda Development Bank Limited (UDBL) from Exim Bank of India and AfDB. This increase is mainly attributed to the disbursements of the Arab Bank for Economic Development in Africa (BADEA) and Islamic Development Bank (IDB) loans. No guarantees were called as of March 2019.

Table 3: Performance of GoU Loan Guarantees as of December 2018 and Loan Guarantees Approved in 2019

Creditor	Project	Beneficiary	Year of Signature	Guaranteed Amount (USD)	Outstanding as of December 2018 (USD)
IDB	Student hostel Project	IUIU	2004	4,302,676	2,328,134.88
IDB	Student hostel project additional financing	IUIU	2010	983,888	727,675.63
IDA	E.A trade & transport facilitation	Rift Valley Railways	2006	10,000,000	-
BADEA (Trade)	Import transactions from ARAB countries	UDBL	2017	10,000,000	8,076,000
BADEA (Pri.Sector)	Private sector projects and trade transactions	UDBL	2017	66,000,000	5,782,000
IDB	Private sector projects and trade transactions	UDBL	2017	10,000,000	3,000,000
IDB	Construct a faculty of engineering, upgrade library and ICT eqp.	IUIUI	2018	13,790,000	
Total				**55,076,564**	**19,913,811**
Approved Loan Guarantees during Fy2018/19					
EXIM Bank of India	Line of Credit to UDBL	UDBL	2019	5,000,000	-
AfDB	Line of Credit to UDBL	UDBL	2019	15,000,000	-
Total				**20,000,000**	

Source: MoFPED (March 2019: 24-25), Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2018/19, https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20GRANT%202019.pdf

There are also several existing explicit and implicit contingent liabilities which Government of Uganda uses in the ongoing public-private partnership (PPP) projects. As at end December 2018, none of the PPP projects entered into after the enactment of the PPP Act 2015 had yet reached commercial or financial close. Therefore, Government of Uganda is not exposed to any fiscal commitments and contingent liabilities from these projects.[6]

[6] However, it should be noted that the GoU has entered into other PPP projects before the enactment of the PPP Act 2015, including the Bujagali Hydropower Generation project, Eskom Generation Concession, Umeme Power Distribution Concession, Kalangala Infrastructure Services, Kampala Serena Hotel, Kilembe Copper Mine Concession. These projects continue to be implemented and monitored via the legal regime under which they were originally undertaken.

3. External Financing by Lenders

Uganda has for several years borrowed from mainly multilateral and bilateral lenders. Five major Multilateral lenders include; IDA, ADB/F, IDB, IFAD and BADEA. The major bilateral creditors have been China, Japan, Germany, France and Korea. Most of these lenders have continued to provide concessional loans to government to support social sector development projects while others such as China Exim Bank and Japan Bank for International Cooperation (JBIC) have primarily funded large infrastructure and development projects through concessional and non-concessional loans to the government.

In this research, depending on the share in current external debt stock, for multilateral lenders WBG (40%) and AfDB Group (16%) are selected as the multilaterals whereas, China (25%) and Japan (4%), as bilateral, are investigated in terms of their current composition and financial and non-financial terms where the information is available.

Table 4: External debt developments as at 31st December 2018

	Dec-17	Dec-18	Year on Year Growth	% Change	Share Debt Stock Dec-18	Undisbursed Dec-18	Undisbursed Debt Dec-18
Grand Total	**6.88**	**7.66**	**0.78**	**11%**	**100%**	**4.05**	**100%**
Bilateral Total	2.03	2.59	0.56	28%	34%	1.55	38%
Non-Paris Club	1.69	2.06	0.37	22%	27%	0.78	19%
China	1.59	1.95	0.36	23%	25%	0.75	19%
Kuwait Fund	0.03	0.04	0.01	33%	1%	0	0%
Saudi Arabia -Saudi Fund	0.03	0.04	0.01	33%	1%	0.01	0%
Nigeria	0.01	0.02	0.01	100%	0%		
Iraq Fund	0	0.01	0.01	-	0%		
Exim Bank of South Korea	0.03	0.03	-	0%		0	0%
ABU Dhabi Fund						0.01	0%
Bilateral Paris Club	0.34	0.54	0.2	59%	7%	0.77	19%
JBIC	0.1	0.12	0.02	20%	2%	0.34	8%
JICA	0.15	0.19	0.04	27%	2%		
France	0.06	0.15	0.09	150%	2%	0.10	3%
UKEF	0	0.09	0.09	100%	1%	0.22	5%
Austria	0.01	0.01	-	0%	0%		

Germany						0.10	3%
Multilateral Creditors	4.68	5	0.31	7%	65%	2.46	61%
IDA	2.97	3.08	0.11	4%	40%	1.16	29%
AfDF	1.18	1.25	0.07	6%	16%	0.44	11%
IFAD	0.22	0.23	0.01	5%	3%	0.07	2%
IDB	0.08	0.15	0.07	88%	2%	0.37	9%
AfDB	0.02	0.06	0.04	200%	1%	0.26	6%
BADEA	0.04	0.05	0.01	25%	1%	0.05	1%
EIB	0.08	0.09	0.01	13%	1%	0.06	1%
NDF	0.06	0.06	-	0%	1%		
OPEC FUND	0.04	0.05	0.01	25%	1%	0.06	2%
Private Banks	0.172	0.09	-0.08	-48%	1%	0.04	1%
PTA	0.167	0.04	-0.13	-76%	1%		
STANDARD CHARTERED	-	0.05	0.05	-	1%	0	0%
COMMERZ BANK	0	0.01	0.01	-	0%	0.04	1%
AKA	0.01	0.01	0.01	100%	0%	0	0%

Source: MoFPED (March 2019: 11), Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2018/19, https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20GRANT%202019.pdf

Financial Terms

Government of Uganda continues to prefer contracting loans on concessional terms to support social sector development projects and infrastructure projects. However, some non-concessional windows have mainly been considered for priority infrastructure projects. Table 5 shows lending terms for the different Creditors that Uganda borrowed for external loans approved by Parliament by March 2019-FY 2018/19.

Table 5: Recent Financial Terms by Creditors that Uganda borrowed as of March 2019

TERMS (USD)					
Donor	**Maturity Period**	**Grace Period**	**Interest Rate**	**Commitment Charges (p.a.)**	**Management Charges (upfront)**
IDA	38	6	0.75%	0.50 %	-
AFD (France)	20	7	1.25%	0.50 %	-
ADF	40	10	0.75%	0.50 %	-
IFAD	40	10	0.75%	-	-
CHINA-EXIM BANK	15	4	6-month USD LIBOR+300 bp	0.50 %	0.50 %
IDB (Instalment Sale)	20	4	USD min swap	-	-
IDB	25	7	1.50 %	-	-

Source: MoFPED (March 2019:20), Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2018/19, https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20GRANT%202019.pdf

Based on all the existing lenders, lenders and their general respective lending terms under Uganda's debt portfolio is summarized in Table 6. These are general lending terms however; specific project terms may vary due to the information provided by MoFPED.

Table 6: Creditor Terms

	CREDITOR TERMS					
Donor	**Maturity Period (Years)**	**Grace Period (Years)**	**Interest Rate**	**Service Charge**	**Commitment Charges (p.a.)**	**Management Charges (upfront)**
IDA (Regular)	38	6		0.75%	0.50 %	
IBRD	20	5	LIBOR +Margin			
AfDF	40	10		0.75%	0.50 %	
AfDB	25	8	6MLIBOR+ Margin (*)		0.25%	0.25%
AfDB (Enhanced Variable Spread Loan)	25	8	With option to fix LIBOR at signature		0.25%	0.25%
IDB (Ordinary)	25	7		1.50 %		
IDB (Istis1.50 %na)	15	4	LIBOR + Margin			
IFAD	40	10		0.75%	o.50%	
BADEA	40	10		0.75%		
	24	5	2.50%			
	24	5	1.00%			
OPEC FUND	25	5	1.00%	1.00%		
	20	5	1.25%	1.00%		
FRANCE (AFD)	20	5	1.25%		0.50%	
GERMANY (KFW)	15	3	4.50%		0.25%	1.00%
GERMANY AKA BANK	10	6	1.80%		1.00%	1.00%
SAUDI FUND	30	10	1.00%			
KUWAIT FUND	40	5	1.50%		0.05%	0.50%
EXIM BANK KOREA	40	15	0.01%			0.10%
CHINA-EXIM BANK						
i)Government CL	20	5	2.00%	0.75%	0.75%	1.00%
ii) Preferential Window	20	5	2.00%	0.75%	0.50%	0.25%
iii) Export Credit Buyer	15	3	LIBOR + Margin		0.50%	0.50%
EIB	15	3	1.00%			
	20	5	1.75%			
IMF	10	5	0.50%			
JAPAN JICA	40	10	0.01%			
JAPAN JBIC	10.5	0.5	CIRR +OECD Risk Premium		0.20%	
ABUDHABI	20	5	1.50%			0.50%
PTA BANK	3	0	4.60%			1.00%
INDIA	20	5	1.50%			

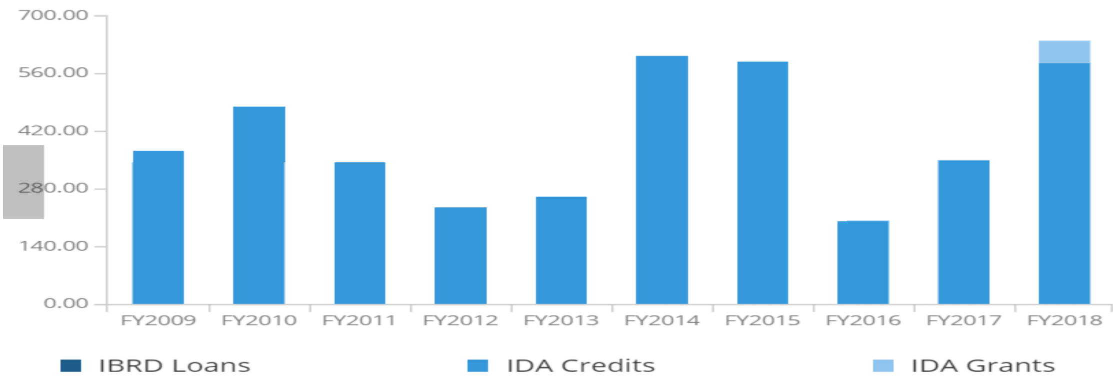
Source: MofPED (March 2018: 24), Report on Public Debt, Guarantees, other Financial Liabilities and Grants for Financial Year 2017/18, https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20%20GUARANTEES%20AND%20OTHER%20FINANCIAL%20LIABILITIES%20AND%20GRANTS%20FOR%20FINANCIAL%20YEAR%202017-2018.pdf

*: Funding cost+ margin (0.01%) +lending margin (80%) + maturity premium (0.20%)

World Bank Group

There are three types of WBG instruments provided to Uganda for project and program financing: International Bank for Reconstruction and Development (IBRD) Loans, IDA Credits and IDA Grants. The IBRD loan portfolio is finalized and there is not an obligation of Uganda for IBRD loans currently. IDA credits are public and publicly guaranteed debt extended by the WBG to Uganda where credits from IDA are at concessional rates. From 2009 to 2018, original principle value of IDA credits and IDA grants are USD 4,027.40 million and USD 54.00 million respectively. During this period, the only IDA grant (USD 54 million) is provided in 2018 as seen in the figure below.

Figure 9: WBG External Financing to Uganda



Source: WBG, in millions of USD (2019), Lending Amounts by FY, https://financesapp.worldbank.org/en/summaries/ibrd-ida/#ibrd-len/years=2009/years=2018/countries=UG/

Table 7 summarizes the existing IDA Credits in terms of loan categories and Table 8 lists the loans by projects. The financial terms of the latest approval of these loans provided for the Development Response to Displacement Impacts Project has a 6-year grace period where the total maturity is 38 years. The service charge in terms of interest is 0.75percent per annum and the commitment fee is 0.50 percent per annum calculated annually. The management fee is zero in IDA Credits.

Table 7: WBG -Uganda Current Portfolio

	IBRD Loans	IDA Credits	IDA Grants
Original Principle	43.20	8,994.73	656.50
Cancellations	0.28	664.11	-
Disbursed	42.92	6,591.29	617.89
Undisbursed	-	1,877.73	52.06
Repaid	34.61	3,515.62	-
Borrower Obligations	-	3,69.54	-

Source: WBG (May 2019), in millions of USD. (Includes the stock figures), https://financesapp.worldbank.org/en/summaries/ibrd-ida/#ibrd-len/countries=UG/

Table 8: IDA Credits to Uganda (Ongoing Projects)

Project Title	**Commitment Amount**	**Approval Date**
Development Response to Displacement Impacts Project in the HoA	150.00	2019-04-17
Additional Financing Uganda Reproductive Maternal and Child Health Services Improvement Project	0.00	2018-09-12
Integrated Water Management and Development Project	280.00	2018-06-14
Uganda Support to Municipal Infrastructure Development Program - Additional Financing	360.00	2018-05-15
LSMS-ISA Uganda National Panel Survey	1.60	2017-10-27
National Content Development for the Oil Sector	0.50	2017-08-09
Uganda Intergovernmental Fiscal Transfers Program	200.00	2017-06-27
UG - Strengthening Social Risk Management and Gender-Based Violence Prevention and Response Project	40.00	2017-06-20
Uganda Rural Electrification	13.70	2016-12-30
Uganda Reproductive, Maternal and Child Health Services Improvement Project	110.00	2016-08-04
Uganda Grid Expansion and Reinforcement Project (GERP)	100.00	2016-05-31
Uganda Clean Cooking Supply Chain Expansion Project	2.20	2016-03-05
Uganda Energy for Rural Transformation III	135.00	2015-06-05
UG GEF Energy for Rural Transformation III	8.20	2015-06-05
Third Northern Uganda Social Action Fund (NUSAF 3)	130.00	2015-05-27
Skills Development Project	100.00	2015-04-22
Agriculture Cluster Development Project	150.00	2015-04-09

Uganda Multisectoral Food Security and Nutrition Project	27.64	2015-01-07
UG Enhancing Accountability & Performance of Social Service Contracts	0.65	2014-12-10
Uganda Reproductive Health Voucher Project	13.30	2014-10-03
UG Teacher and School Effectiveness Project	100.00	2014-08-15
UGANDA North Eastern Road-corridor Asset Management Project (NERAMP)	243.80	2014-04-30
Uganda: Albertine Region Sustainable Development Project	145.00	2014-03-26
Second Kampala Institutional and Infrastructure Development Project	175.00	2014-03-20
Competitiveness and Enterprise Development Project (CEDP)	100.00	2013-05-09
Uganda Support to Municipal Infrastructure Development Program	150.00	2013-03-28
Energy for Rural Transformation Project	0.00	2007-06-27
UG-Nile Basin Reforestation (FY06)	0.00	2006-06-30

Source: WBG, in millions of USD, http://projects.worldbank.org

WBG: Non-Financial Terms

WBG is required by its Articles of Agreement to *“make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.”* [7] In the WBG’s policies and vision, procurement in investment project financing is underlined to support borrowers to achieve value for money with integrity in delivering sustainable development. The following general principles/common clauses for applicable law, settlement of disputes, fraud and corruption, procurement regulations, national procurement procedures and insurance are applied in the documentation of WBG:

Applicable Law and Settlement of Disputes

[7] IBRD Articles of Agreement, (As amended effective February 16, 1989), Article 5.(a).

The conditions of project/consultancy work contracts for international competitive procurement shall include provisions dealing with the applicable law and the forum for the settlement of disputes. All international competitive procurement contracts are required to include appropriate mechanisms for independent dispute resolution.

International commercial arbitration in a neutral venue shall also be required unless the national regulations and arbitration procedures are acceptable to the Bank in terms of equivalence to international commercial arbitration and the venue is neutral, or the contract has been awarded to a Bidder/Proposer/Consultant from the Borrower’s country. The World Bank shall not be named arbitrator or be asked to name an arbitrator. It is understood, however, that officials of the International Center for Settlement of Investment disputes (ICSID) shall remain free to name arbitrators in their capacity as ICSID officials. (WBG, 2016, Updated 2018, page 88)

Fraud and Corruption

WBG requires application of, and compliance with, the Bank’s Anti-Corruption Guidelines, including without limitation the Bank’s right to sanction and the Bank’s inspection and audit rights. (WBG, 2016, Updated 2018, page 11)

Procurement Regulations

The Bank has adopted the ‘World Bank Procurement Regulations for IPF Borrowers (Procurement Regulations) governing the procurement of Goods, Works, Non-consulting Services, and Consulting Services’ for international project finance operations to be financed by the Bank. While in practice the specific procurement rules and procedures to be followed in the implementation of a project depend on the circumstances of the particular case, the following Bank’s Core Procurement Principles generally guide Bank decisions under these Procurement Regulations: value for money, economy, integrity, fit for purpose, efficiency, transparency and fairness. (WBG, 2016, Updated 2018, page 1)

At the Borrower’s request, WBG (subject to its policies and rules, and applicable fiduciary and operational requirements), may agree to:

a. rely on and apply the procurement rules and procedures of another multilateral or bilateral agency or organization, and may agree to such a party taking a leading role in providing the implementation support and monitoring of procurement activities; and

b. rely on and apply the procurement rules and procedures of an agency or entity of the Borrower.

National Procurement Procedures

When approaching the national market, the country’s own procurement procedures may be used. These procurement procedures shall be consistent with the Bank’s Core Procurement Principles and ensure that the World Bank’s Anti Corruption Guidelines and Sanctions Framework and contractual remedies set out in its Legal Agreement apply.

For national open competitive procurement, the following requirement apply:

a. open advertising of the procurement opportunity at the national level;

b. the procurement is open to eligible firms from any country;

c. the request for bids/request for proposals document shall require that bidders submitting bids present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, the Anti-Corruption Guidelines, including without limitation the World Bank's right to sanction and the Bank's inspection and audit rights;

d. Procurement documents include provisions, as agreed with the World Bank, intended to adequately mitigate against environmental, social (including sexual exploitation and abuse and gender-based violence), health and safety ("ESHS") risks and impacts;

e. contracts with an appropriate allocation of responsibilities, risks, and liabilities; publication of contract award information; rights for the World Bank to review procurement documentation and activities; an effective complaints mechanism; and maintenance of records of the procurement process.

When open international competitive procurement is used to procure Goods or Works, a margin of domestic preference may be provided in the evaluation of proposals for the following:

a. Goods manufactured in the Borrower's country, compared with Goods manufactured abroad. The preference is fifteen percent (15%) added to the carriage and insurance paid price of the Goods manufactured abroad; and

b. Works in member countries below a specified threshold of per capita gross national income (as defined annually by the WBG), when comparing proposals from eligible domestic firms with those from foreign firms. The preference is seven and a half percent (7.5%) added to the price offered by the foreign firms. (WBG, 2016, Updated 2018, page 24)

Insurance

Contracts shall include types and terms of insurance to be provided by contractors. Normally, an 'all risk' type of insurance policy shall be specified. For goods and for single responsibility contracts, the indemnity payable under transportation insurance shall be at least 110% (one hundred ten percent), of the price of the goods to be imported in the currency of the payment or in a freely convertible currency to enable prompt replacement of lost or damaged goods.

If a Borrower does not wish to obtain insurance coverage through the contract, and wishes to make its own arrangements or to reserve insurance to national firms or other designated sources, it provides evidence satisfactory to the World Bank that:

a. resources are readily available for prompt payment, in a freely convertible currency among the currencies of payment of the contract, of the indemnities required to replace lost or damaged goods and works; and

b. risks are adequately covered. (WBG, 2016, Updated 2018, page 88)

African Development Bank Group

AfDB Group has been involved in external lending activities in Uganda since 1967, in 115 public investment projects both sovereign and non-sovereign. Total commitment of AfDB is UGX, 2,168,718,427. The top sectors are agriculture and rural development, transportation, water supply sanitation and social. Among 115 projects, 18 of these projects are in implementation phase where 11 of them are sovereign loans provided from AfDB and African Development Fund as listed below:

Table 9: AfDB Group Active Loans to Implementation Projects/Programs in Uganda

Project Name	Commitment in UGX (ml)	Starting Date	Source of Financing	Sector
Uganda - Strategic Towns Water Supply and Sanitation Project (STWSSP)	44.00	20 Jun 2018	AfDF	Water Supply & Sanitation
Uganda - Kampala Sanitation Program (AFKSP)	19.00	15 Dec 2017	AfDF	Water Supply & Sanitation
Uganda - Agricultural Value Chain Development Programme (AVCP) – Project 1	57.00	11 Dec 2017	AfDF	Agriculture and Rural Development
Uganda - Water Supply and Sanitation Programme - Phase II	65.80	03 Feb 2016	AfDF	Water Supply & Sanitation
Uganda - Farm Income Enhancement and Forestry Conservation Programme - Project 2	54.86	20 Jan 2016	AfDB	Agriculture and Rural Development
Uganda - Uganda Rural Electricity Access Project	71.90	16 Sep 2015	AfDB	Power
Uganda - Markets and Agricultural Trade Improvement Programme: Project – 2 (MATIP-2)	60.54	10 Dec 2014	AfDB	Agriculture and Rural Development
Uganda - Road Sector Support Project V	70.00	28 May 2014	AfDF	Transport
Uganda - Road Sector Support Project IV	72.94	13 Mar 2013	AfDF	Transport
Uganda - Support to Higher Education, Science and Technology (HEST) Project	67.00	21 Nov 2012	AfDF	Social
Uganda - Improvement of Health Services Delivery at Mulago Hospital and in the City of Kampala Project	56.00	06 Jul 2011	AfDF	Social

Source: AfDB, https://projectsportal.afdb.org/dataportal/VProject/search

Based on the recent investment presentation of AfDB, the applicable financial terms based on sovereign and non-sovereign instruments can be categorized as follows:

Table 10: AfDB Current Financial Terms March 2019

	Fully Flexible Sovereign and Sovereign Guaranteed Loans	Non-Sovereign Loans
Currency	USD, EUR, JPY, ZAR and any other currency designated as a lending currency of the Bank	
Maturity	Up to 25 years, with up to 8 years grace period	Up to 15 years, with up to 5 years grace period. Longer maturities can be considered on a case-by-case basis.
Lending Rate	Base rate + funding cost margin +lending spread (80 bps) +maturity premium	Base rate + lending margin
Base Rate	Floating or fixed	Floating base rate, fixed base rate or all-in-cost of funds (for local currency lending)
Lending Margin		Based on a project specific risk rating in line with the Bank's non-sovereign pricing framework. Margin includes credit risk and concentration risk premium.
Maturity Premium	Depending on the average maturity of the loan (0 bps for up to 12.75 years, 10 bps for between 12.75 and 15 years and 20 bps for greater than 15 years)	
Fees	25 bps commitment fee and 25 bps front tend fees	1% front end fees, 0 to 1 % appraisal fee, 0.5% to 1% commitment fee
Repayment Terms	Equal instalments of principal after expiration of grace period. Other repayment terms may also be considered.	

AfDB: Non-Financial Terms

AfDB's Guidance on General Conditions Applicable to the African Development Bank Loan Agreements and Guarantee Agreements (Sovereign Entities) are summarized below (AfDB, December 2008):

Applicable Law: The Law to be applied to the agreement[8] shall be public international law, the sources of which shall be taken for these purposes to include: (a) any relevant treaty obligations that are binding reciprocally on the parties to these agreements; (b) the provisions of any international conventions and treaties (whether or not binding directly as such on the parties) generally recognized as having codified or ripened into binding rules of customary law applicable to states and to international financial institutions, as appropriate; (c) international custom, as evidence of a

[8] Agreement refers to the Loan Agreement or the Guarantee Agreement signed by AfDB, where appropriate.

practice accepted as law; and (d) general principles of law applicable to multilateral economic development activities.

Settlement of Disputes: (a) Any controversy between the parties to the agreement and any claim by any such party against any other such party arising under the agreement will be settled amicably. If no amicable settlement is reached within ninety (90) days from the date notification is given by one party of a request for submission of the dispute to an amicable settlement, the dispute may be submitted to arbitration, as provided hereunder, by either party. (b) Except as otherwise specified the arbitration shall be conducted in accordance with the United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules.

Arbitral Procedure: The arbitral tribunal shall consist of three arbitrators appointed as follows: one arbitrator shall be appointed by the AfDB (Bank); a second arbitrator shall be appointed by the Borrower and the Guarantor, or, if they shall not agree, by the Guarantor, and the third arbitrator (hereinafter sometimes called the Umpire) shall be appointed by the two arbitrators first appointed by the parties. The appointing authority for the purposes of the UNCITRAL Arbitration Rules shall be the Secretary-General of the Permanent Court of Arbitration at the Hague. The arbitral tribunal shall decide all questions relating to its competence and shall, subject to the provisions of this Section and except as the parties shall otherwise agree, determine its procedures. All decisions of the Arbitral Tribunal shall be by majority vote. Any award rendered in accordance with the provisions of this Section shall be final and binding upon the parties Agreement.

Project Implementation: The Borrower shall carry out the project and/or cause the executing agency to carry out the project: (a) with due diligence and efficiency; (b) in conformity with all applicable laws and regulations; (c) in conformity with appropriate administrative, technical, financial, economic, environmental and social standard and practices; and (d) in accordance with the provisions of the agreement and the general conditions, as well as any performance arrangement to be entered into between the borrower and the executing agency or any member thereof.

Negative Pledge: It is the policy of the AfDB, in making loans to, or with the guarantee of, its member states not to seek, in normal circumstances, special security from the member state concerned. however, the borrower or the guarantor shall ensure that no other external debt shall have priority over its loan or guarantee obligation in the allocation, realization or distribution of foreign exchange held under the control or for the benefit of such member state.

Insurance: The Borrower shall insure or cause to be insured the goods to be financed out of the proceeds of the Loan against hazards incidental to the acquisition, transportation, delivery, installation and use thereof during the entire period of project implementation until completion. Any indemnity for such insurance shall be payable in a freely usable currency to replace or repair such goods.

Use and Procurement of Goods, Works and Services: (a) Except as the AfDB shall otherwise agree, the borrower shall, until project completion, cause all goods, works and services financed out of the proceeds of the loan to be used exclusively for the purposes of the project. (b) the procurement of goods, works and services required for the execution of the project shall be effected by the borrower in accordance with the relevant rules of procurement of the bank, which shall form an integral part of the loan agreement.(c) The borrower shall be legally responsible for the procurement. It invites, receives, and evaluates bids, and awards the contracts. The contract shall be between the Borrower and the supplier of goods, works or services. The Bank shall not be a party to the contracts. (d) Upon the award of any contract for goods, works or services to be financed out of the proceeds of the loan, the borrower shall, and the Bank may, publish a description thereof, the name and nationality of the party to which the contract was awarded and the contract value.

Land Acquisition: The Borrower shall take (or cause to be taken) all actions necessary to acquire as and when needed all land and rights in respect thereto as shall be required for carrying out the Project and shall promptly provide to the Bank, upon its request, evidence satisfactory to the Bank that such land and rights in respect of land are available for purposes related to the project.

China

ODA from China has risen tremendously in the past two decades across the globe, including in the world's poorest continent, Africa. This sudden increase in development resources affected the two major multilateral development banks (MDBs) in the region, the WBG and the AfDB. (Humphrey and Michaelowa, 2018, Abstract)

See: Figure 10: Cumulative development finance commitments to Africa, 2000-2014, Humphrey and Michaelowa (2018: 2), http://docs.aiddata.org/ad4/pdfs/WPS61_China_in_Africa.pdf

China's Belt and Road Initiative (BRI) aims to deliver trillions of dollars in infrastructure financing to Asia, Europe, and Africa. If the initiative follows Chinese practices to date for infrastructure financing, which often entail lending to sovereign borrowers. BRI spans at least 68 countries with an announced investment as high as $8 trillion for a vast network of transportation, energy, and telecommunications infrastructure linking Europe, Africa, and Asia. China bilateral external financing is mainly carried by China's policy banks—China Development Bank (CDB), China Exim Bank, and the Agricultural Development Bank of China (ADBC) based on the bilateral relationship between the two governments. (Hurley, Morris, Portelance, 2018, pg 3)

As of December 2018, the biggest proportion of the current external debt stock of Uganda is from China (75%). Based on the loan disbursement for FY2018/19, 36 percent came from China where IDA accounted for 13 percent and 15 percent disbursements was realised by AfDF in the same period. (MoFPED, March 2019, page 33)

China-Exim Bank: Financial and Non-Financial Terms

The Export-Import Bank of China was created in 1994 with the mission to promote the exports of Chinese mechanical and electronic products and high- and new-tech products, to support Chinese enterprises that have a comparative advantage in their "going-global" operations, to develop and strengthen relations with foreign countries.

Financial Terms

In order to promote a level playing field for official support, a number of OECD members[9] agreed to the 1978 Arrangement on Officially Supported Export Credits which places limitations on the terms and conditions of officially supported export credit financing, so that competition among exporters is based on the quality and price of goods and services exported, rather than on the most favourable officially supported financial terms and conditions. It also limits the ability of governments to tie their concessional export credits to procurement of goods and services from their own countries (OECD 2010; te Velde 2010).

[9] i.e. Australia, Canada, the European Community, Japan, Korea, New Zealand, Norway, Switzerland, and the United States

The OECD Arrangement stipulates the following (OECD 2010; te Velde 2010; Brautigam 2010):

- All forms of officially supported export credits are subject to repayment requirements within specific time limits;
- ECAs have to use the relevant Commercial Interest Reference Rate (CIRR) as the minimum interest rate;
- ECAs that provide guarantees or insurance need to charge a Minimum Premium Rate (MPR) to cover the credit risk, which shall be risk-based and adequate to cover long-term operating costs and losses;
- No concessional export credits shall be offered to countries whose income level, according to the World Bank data, is above the upper limit for lower middle-income countries.
- No concessional export credits should be extended to commercially viable projects, for which CIRR should be used (so only commercially non-viable projects in lower income countries are eligible for concessional export credits);
- When allowed, concessional export credits should be given a concessional level of at least 35 percent, or 50 percent if the beneficiary country is a least developed country.

Terms and conditions for concessional export credits should not be fixed for more than two years. China did not agree to these norms. (European Parliament, 2011, Page 11). Even though there is no public information available on the financial terms offered by Chinese policy banks, anecdotal evidence shows that China usually offers more favourable financing terms than its Western competitors. For example, in general terms globally China's Eximbank loans have longer grace and repayment terms as well as generally lower interest rates (Robertson and Corkin 2011).

According to the data available for financial terms of China loans:

-Based on the AidData provided for Chinese external loans provided to Uganda, in 2011, a concessional loan agreement provided by China Eximbank to Uganda for a transportation project had a 20-year maturity where the grace period is 5 years. The interest rate is defined as 2% per annum where there is a 54% grant element in the specified transaction. (AidData, Working Paper 70, database).

-Based on MoFPED reporting, the current financial terms for a Chinese loan which is signed in 2018 is stated as 15-year total maturity with a 4 year grace period. The interest rate is referred to as the floating interest rate applicable as 6month USD LIBOR plus a 300bps margin per annum and a commitment and management fee of 0.50% each. [10]

Non-Financial Terms

There is not an available source in the official website of China Exim bank in order to reflect the applicable non-financial terms into their existing loan agreements.

Japan

Japan Bank for International Cooperation provided bilateral aid in the form of technical cooperation, Japanese ODA loans and grant aid to developing countries. The main objective is the promotion of

[10] Refer to the full financial terms in Table 5.

economic development and welfare. It has concessional terms, having a grant element of at least 25% generally.[11] Table 11 provides the financial terms of the existing loan agreements to Uganda.

The borrowing country uses the proceeds of an ODA loan to purchase various materials and equipment as well as services for project implementation. These purchases, or procurement, must be made by following one of these three sets of conditions: A “general untied” loan allows procurement from any country in the world. A “partially untied” loan allows procurement only from Japan and developing countries. A “tied loan” allows procurement only from Japan. Procurement is made, in principle, based on competitive bidding. This procedure enables the borrower to purchase high quality goods and services at the minimum cost.

Financial Terms

In the aggregate figures of Uganda total external debt, aggregate share in debt stock of JBIC and JICA loans is 4%. Table 11 summarizes the ongoing project list in Uganda financed by JICA with their loan and grant elements.

[11] For countries complying with ongoing IMF-supported programs or receiving grants from IDA, it is possible to modify the terms and conditions of the ODA Loans so as to meet the IMF's concessionally criteria. Refer to general terms for JICA loans: https://www.jica.go.jp/english/our_work/types_of_assistance/oda_loans/ standard/index.html (Source: JICA official website)

Table 11: JICA Financing- Ongoing Projects in Uganda

			Main Portion				Consulting Portion		
Project Name	**Year**	**Amount of approval (millions; jpy)**	**Interest rate (%)**	**Repayment period (years)**	**Grace period (years)**	**Tying status**	**Interest rate (%)**	**Repayment period (years)**	**Grace period (years)**
Kampala Flyover Construction and Road Upgrading Project	2015	19,989.00	0.01	40	10	General, untied	0.01	40	10
Construction of a New Bridge Across River Nile at Jinja Project	2010	9,198.00	0.01	40	10	Untied	0.01	40	10
Interconnection of Electric Grids of Nel Countries Project	2010	5,406.00	0.01	40	10	General Untied			
Upgrading of Atiak-Nimule Road Project	2010	3,395.00	0.01	40	10	General Untied	0.01	40	10
Bujagali Interconnection Project	2007	3,484.00	0.01	40	10	Others			
Structural Adjustment Loan	1993	6,247.00	1	30	10	General Untied			

Source: JICA, https://www.jica.go.jp

Japan: Non-Financial Terms

The applicable non-financial terms in JICA transactions to Uganda is followed by the guidelines and regular principles of JICA. The proceeds of ODA Loans of the JICA are required to be used with due attention to considerations of economy, efficiency, transparency in the procurement process and non-discrimination among eligible bidders for procurement contracts. The employment of consultants and procurement of goods and services under projects financed by ODA Loans from JICA is carried out in accordance with the general principles and procedures laid down in the Guidelines for the Employment of Consultants under JBIC ODA Loans (called Consultant Guidelines) and the Guidelines for Procurement under JBIC ODA Loans (called Procurement Guidelines) respectively.

The range of eligible source countries is usually determined at the stage of prior notification to the Borrower's country. Eligible countries are:

- For General-Untied loans: all countries and areas
- For Partial-Untied loans: Japan and LDCs (listed on the DAC List Part I and Part II)
- For Bilateral Tied loans: Japan and the Borrowing country
- For Tied loans: Japan only. (JICA Handbook, Page 58)

JICA considers that in most cases international competitive bidding is the best method for satisfying the requirements regarding procurement of goods and services for projects. There may be special circumstances in which international competitive bidding may not be appropriate, and JICA may consider alternative procedures acceptable in cases of the following:

- Where the Borrower wishes to maintain reasonable standardization of its equipment or spare parts in the interests of compatibility with existing equipment.
- Where the Borrower wishes to maintain continuity of services provided under an existing contract awarded in accordance with procedures acceptable to the BANK.
- Where the number of qualified contractors, suppliers or manufacturers (hereinafter collectively referred to as “Contractor(s)”) is limited.
- Where the amount involved in the procurement is so small that foreign firms clearly would not be interested, or that the advantages of ICB would be outweighed by the administrative burden involved.
- Where, in addition to cases (i), (ii), (iii) and (iv) above, JICA deems it inappropriate to follow international competitive bidding procedures, e.g. in the case of emergency procurement. (JICA Handbook, Page 56)

In the above-mentioned cases the following procurement methods, as appropriate, should be fully applied in such a manner as to comply with the international competitive bidding procedures:

- Limited International Bidding, which is international competitive bidding by direct invitation without open advertisement.
- International shopping, which is a procurement method based on comparing price quotations obtained from several (usually at least three) foreign and/or local suppliers to ensure competitive prices.
- Direct contracting.

Provisions dealing with the settlement of disputes shall be included in the conditions of contract and should refer to the provisions of the "Rules of Conciliation and Arbitration" prepared by the International Chamber of Commerce. (JICA Handbook, Page 93)

4. Country Comparison: External Debt of Kenya

Kenya’s macroeconomic stability has improved on account of sustained prudence in monetary and fiscal policies. The economy continues to experience steady growth as reflected by 5.8 percent, 6.2 percent and 6.0 percent GDP growth in the first, second and third quarters of 2018 respectively an improved growth rate compared to the 4.7 percent in 2017. The priority policies and strategies outlined in “The Big Four” Plan and as prioritized in the Third Medium Term Plan of the Vision

2030.[12] As enablers to the achievement of the Big Four Agenda of food security, affordable housing, expanding the manufacturing sector; and providing universal healthcare, the Government will continue pursuing prudent fiscal and monetary policies that support strong economic growth, ensures price stability and maintains public debt at sustainable levels.

Public Debt

Kenya's main sources of financing is issuance of domestic debt market fixed income securities and external debt, mainly from the multilateral and bilateral lenders and commercial creditors. As a way of diversifying its sources, the Government of Kenya also explores non-traditional sources of financing such as private placement (in local and foreign currencies), local currency international issuance, targeted retail Treasury bonds and Treasury bills, the Islamic bonds, Green bonds and diaspora bonds over the medium term.

Kenya's national government public and publicly guaranteed debt stood at USD 51.81 billion as at end-December 2018, equivalent to 52.7 per cent of GDP in nominal terms.[13] 2019 medium-term debt management strategy reports the external debt component at 25.6 percent of GDP (USD 25.2 billion) and domestic debt equivalent to 24.7 percent of GDP (USD 24.3 billion)[14]. (2019 Medium Term Debt Management Strategy, pg. viii)

The domestic debt market is dominated by commercial banks as the main investors for government securities. As at end December 2018, commercial banks held 50.6 percent of total outstanding securities. Non-banks which comprises of pension funds, insurance companies, financial institutions and parastatals held 43.7 percent while the rest was held by non-residents and Central bank of Kenya at 4.6 per cent and 1.03 percent, respectively. (2019 Medium Term Debt Management Strategy, pg. 15)

External Debt Composition

External borrowing was to comprise concessional, semi-concessional and commercial in the ratio of 20:30:10 as of end of 2017. In the case of domestic borrowing, it was to be through Treasury bills and Treasury bonds with a bias on benchmark bonds.

Project/Program Financing Loans

Publicly and publicly guaranteed debt structures is listed in Table 12. Multilateral debt accounted for 8.7 percent of GDP, out of which, IDA remains the largest multilateral creditor accounting for 5.4 percent of GDP (USD 5,275 million). Outstanding external commercial debt and fixed coupon is equivalent to 8.7 per cent of GDP and debt from bilateral creditors is 8.2 percent of GDP. 34 percent of the external debt is to multilateral institutions, while bilateral and commercial debts account for 31 and 34 percent respectively.

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[12] https://vision2030.go.ke/publication/third-medium-term-plan-2018-2022/
[13] The present value of public debt-to-GDP increased from 48.7 per cent in 2016 to 49.0 per cent in 2017 and is projected to decline to 47.1 per cent of GDP by 2019. (Medium Term Debt Management Strategy for FY2018/19- F Y2020/21, page 4)
[14] This amount excludes US$718 million in CBK overdraft, bank advances and Tax Reserve Certificates (source: Medium Term Debt Management Strategy, 2019)

Table 12: Public and Publicly Guaranteed Debt of Kenya, December 2018

Instrument	Debt in millions of USD Equivalent	In Percent of GDP
I. Domestic Debt (Included in MTDS)		
Treasury Bills	8,832	9.0
Treasury Bonds	15,245	15.5
Pre-1997 Government Debt	229	0.2
Sub Total	**24,306**	**24.7**
II. External Debt (Included in MTDS)		
IDA	5,275	5.4
AfDB	2,191	2.2
Bilateral	8,034	8.2
Other Multilateral	1,133	1.2
Commercial Banks	3,847	3.9
Fixed Coupon	4,750	4.8
Non-Performing Guarantees	19	0.0
Sub Total	**25,249**	**25.6**
III. Debt &Guarantees (Excluded in MTDS)		
Suppliers Credit	166	0.2
CBK Overdraft	636	0.61
Performing Guarantees	1,370	1.39
Bank Advances	81	0.1
Sub Total	**2,253**	**2.3**
Total Debt (I+II) Included in MTDS	**49,555**	**50.4**
Total Debt (I+II+III)	**51,808**	**52.7**

Source: The National Treasury, Kenya (February 2019: 5), 2019 Medium Term Debt Management Strategy, http://www.treasury.go.ke/economy1/debt-reports/category/42-medium-term-debt-strategy.html?download=904:2019-medium-term-debt-management-strategy

In the fiscal year 2019/20, the Government aims at maximizing the official external sources for loans on concessional terms even though this source is shrinking with Kenya`s graduation to lower middle-income economy. For this reason, the Government plans to access commercial windows of multilateral institutions, maintain its presence in the international capital markets as well as continue using ECAs to finance its development expenditures and achievement of the big four Agenda. (The National Treasury, 2019, Medium Term Debt Management Strategy, pg. 14)

Program Grants

The government primary balance budgeting reports state the total budgetary external program grants as USD 60.55 million as of June 2018. (IMF, pg. 56) Lender specific external grant information is not available.

Government Guarantees

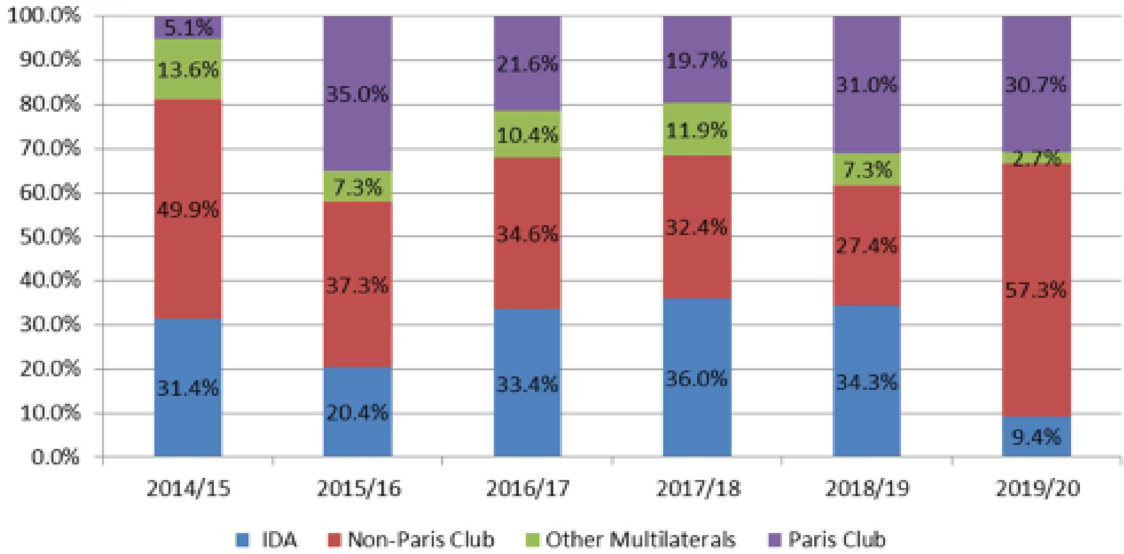
The performing guaranteed debt relate to loans contracted by Kenya Railways, Kenya Airways, Kenya Ports Authority and KenGen while the nonperforming guarantees refer to loans to Kenya Broadcasting Corporation, Tana and Athi River Development Authority and East Africa Portland Cement. (The National Treasury, 2019)

Lender Composition

Based on external debt commitments, the bilateral Paris and non-Paris Club creditors continue to contribute significantly to the financing of projects over the medium term. During the period of FY2017/18 to FY2019/20), disbursements from bilateral non-Paris Club creditors will on average account for about 39 per cent of annual disbursements to finance ongoing infrastructure projects.

As summarized in Figure 11, in the annual terms, non-Paris Club share in the composition has doubled from 27.4 percent in 2018 to 57.3% in 2019. One of the major reasons for this high increase is the fact that Kenya has been reclassified as a lower-middle income country in 2017 which is expected to reduce financing from concessional multilateral sources.

Figure 11: Composition of Official Financing to Kenya



Source: The National Treasury, Kenya (February 2018: 21), Medium Term Debt Management Strategy for FY2018/19- F Y2020/21, http://www.treasury.go.ke/economy1/debt-reports/category/42-medium-term-debt-strategy.html?download=818:medium-term-debt-management-strategy-for-fy2018-19-fy2020-21

As of June 2018, Kenya's external lenders including commercial banks, China and WBG-IDA were the main sources of debt. Other Bilaterals include Japan, USA, Saudi Arabia, Denmark, Kuwait, Spain, France, Germany, Belgium, Switzerland, Austria, Netherlands, Finland, UK, Sweden, Italy, Canada, Korea, India, Poland, and Suppliers Credit.

See: Table 13: Public and Publicly Guaranteed External Debt by Creditor, Ksh Million, The National Treasury, Kenya (2018: 37), Annual Public Debt Management Report 2018, http://treasury.go.ke/economy/category/157-annual-debt-management.html?download=873:annual-public-debt-report-2017-2018

Financial Terms

The financial terms listed in Table 5 and Table 6 are also applicable to Kenya based on the lender's classification of the income level of the borrower country.

The loan by loan public debt register information for financial terms in the external debt stock can only be available up to June 2015, where the following Table 14 summarizes these figures.

Table 14: Terms of External Debt as of June 2015

TERMS (External Debt Stock as of June 2015)				
Donor	**Repayment Period**	**Currency**	**Interest Rate**	**Loan Types**
IDA	Between 30 to 40-year	USD	0.75%	Program/Project
IMF	5 to 10 year	XDR	0.50%	Program
IFAD	Between 30 to 40-year	USD	0.75 % to 1.00%	Project
Saudi Development Fund	15 years	USD	2.00 %	Budget Support
OPEC	Up to 15 years	USD	1.00%	Project
UK, ECGD	14 year	GBP	Variable / 0.75%	Rescheduled Loans
USA, US Exim	Up to 20 year	USD	Variable / 0.75%-1%	Project/ Rescheduled
CHINA, China Exim	15	USD	2.00%	Project
Canada, EDC	Up to 25	USD	Variable	Project
BADEA	Up to 22	USD	Variable / 1%- 3%	Project
Spain, ICO	Up to 20	USD	1.00 %	Project
India, EximBank	10 years	USD	Variable	Project
Korea, EDCF	Up to 20 years	USD	Info not available	Project

Source: The National Treasury, Kenya, Public Debt Register as at End June 2015, http://www.treasury.go.ke/publications/pdmo/category/41-external-public-debt-register.html

Regarding the average terms of new external loan commitments as of end of June 2018, the average maturity, grace period and average interest rate were 21 years, 10 years and 4 per cent respectively. Overall, these are favourable borrowing terms in line with the Government's external debt strategy of contracting loans on highly concessional or "soft" terms. The current lending financial figures of Kenya, average terms are listed in Table 16.

See: Table 15: Average Terms of New External Loan Commitments, The National Treasury – Republic of Kenya (2018: 22), Annual Public Debt Management Report 2018, http://treasury.go.ke/economy/category/157-annual-debt-management.html?download=873:annual-public-debt-report-2017-2018

For 2019 debt management sustainability scenarios, the Government of Kenya sets the pricing assumptions for interest rates and the exchange rate under the below baseline pricing assumption. (The National Treasury, 2019 Medium Term Debt Management Strategy, pg. 17)

- Concessional external loans are priced in 2019 at a fixed rate of 1.75 percent, with a 20-year or 25-year tenor and a 5 year or 10-year grace period.
- However, in 2018, the assumption for concessional external loans were priced at a fixed rate of 0.75 percent, with a 30-year or 40-year tenor and a 10-year grace period. The explanation behind the change in these financial assumptions are stated as the terms of concessional borrowings from IDA and partially AfDB have hardened due to Kenya's graduation from a low income to lower middle-income country. (The National Treasury, Medium Term Debt Management Strategy, 2018, pg. 26)
- Semi-concessional loans are assumed to be contracted at a fixed interest rate of approximately 2.0 percent, a maturity of 20 years including a grace period of up to 7 years.
- Commercial borrowings refer to the international syndicated loans market and the Export Credit Financing contracted at 6-month LIBOR plus a margin.
- Access to the international capital markets is based on the underlying forward US Treasury yield curves plus an assumed credit spread and inflation differentials.

Bilateral Lenders and China

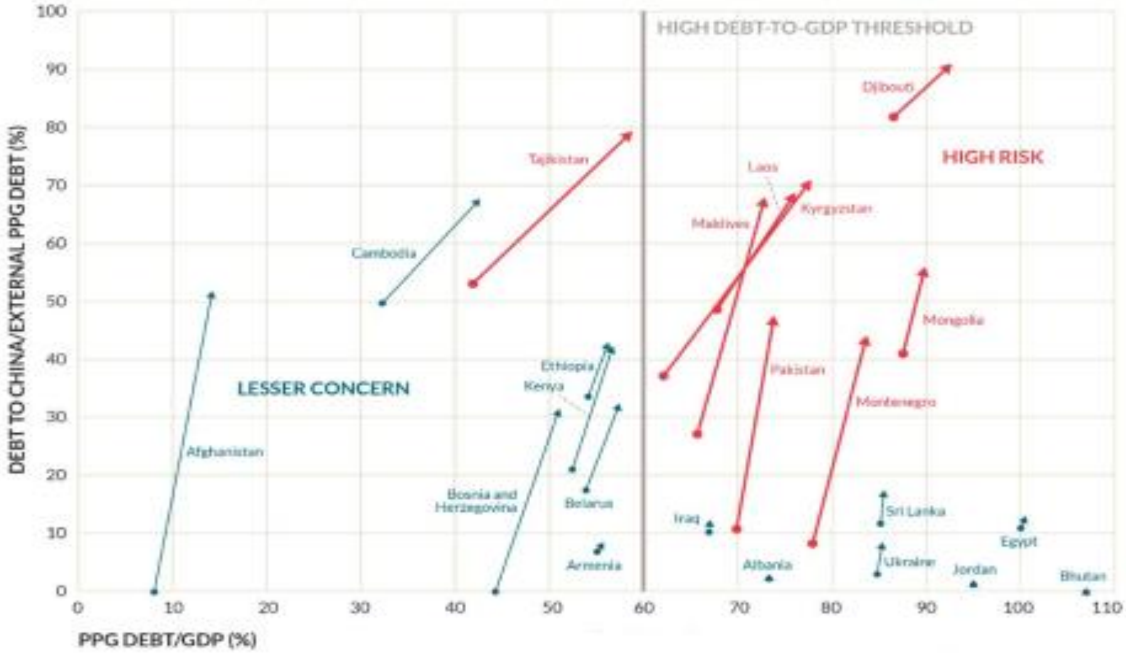
Since the multilateral lenders' general terms to Kenya will be similar to Uganda especially for the general terms and guidelines for the non-financial terms, the lender specific search for Kenya is done on China's lending loans to Kenya in order to reflect the bilateral lenders information.

There is an increasing trend for the China's contribution to Kenya in external debt. As a Belt and Road Initiative (BRI) beneficiary country from Africa, Kenya benefits from Chinese external resources in terms of infrastructure finance.

See: Figure 12: Classification by Major Creditors, 2018, The National Treasury, Kenya (2018: 19), Annual Public Debt Management Report 2018, http://treasury.go.ke/economy/category/157-annual-debt-management.html?download=873:annual-public-debt-report-2017-2018

Figure 13 illustrates Kenya's marginal impact among other BRI beneficiary countries. Kenya is not categorized as a high-risk country however, there are other debt sustainability concerns in terms of China's increasing contribution to Kenya. (Hurley, Morris, Portelance, 2018).

Figure 13: Immediate marginal impact of BRI lending pipeline



Source: Center for Global Development, (Hurley, Morris, Portelance, 2018, page 12), Licensed under a Creative Commons Attribution-NonCommercialNoDerivatives 4.0 International License. (CC BY 4.0)

In Kenya's public debt increase, much of the lending has come from China in recent years, but as of March 2019, Kenya's obligations to China went much deeper than expected. China is by far Kenya's largest lender, accounting for 72% of bilateral debt by the end of March 2019. That is a 15 percent increase from 2016 when China accounted for 57% of Kenya's bilateral debt. It is also eight times more than what it received from its next biggest lending partner, France.

Over the last few years, government of Kenya have defended the borrowing spree, saying it was part of efforts to upgrade infrastructural investment, expand energy options and distribution, and improve transportation systems. The growing access to Chinese funding also points to developing bilateral relations, with the government looking to access easy loans with fewer strings attached.[15]

The rising debt levels in Kenya are already causing concerns globally. In February, global rating agency Moody downgraded Kenya's rating owing to rise in debt levels and deterioration in debt affordability. The International Monetary Fund also stopped Kenya's access to a $1.5 billion standby

[15] https://qz.com/africa/1324618/china-is-kenyas-largest-creditor-with-72-of-total-bilateral-debt/

credit facility due to non-compliance with fiscal targets. The IMF urged Kenya to lower its deficits and put the country's debt onto a "sustainable path."

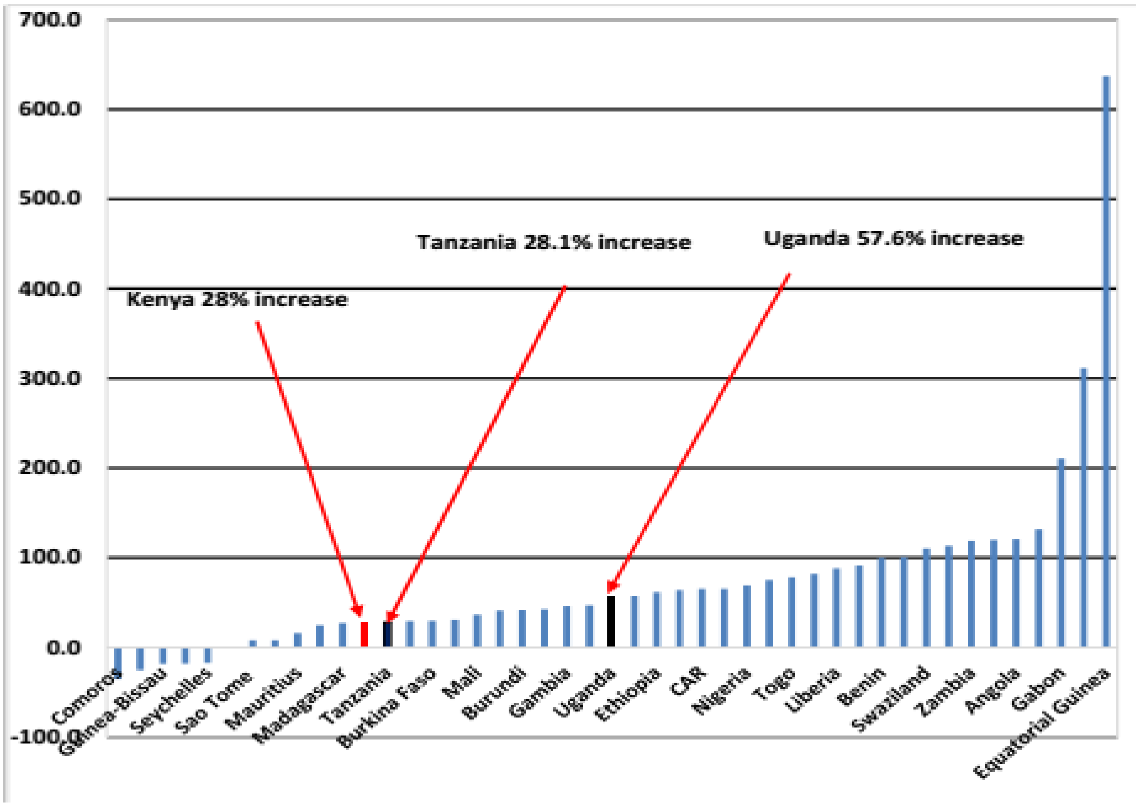
Non-Financial Terms:

Like in the case of Uganda, there is not an available source on the official website of China Exim bank in order to reflect the applicable non-financial terms into their existing loan agreements provided to Kenya.

External Debt Comparison: Uganda vs Kenya

Kenya's rate of debt accumulation a percentage of GDP has been low compared to her peers in the African region as shown in Figure 17. Kenya's debt to GDP ratio increased by 28% over the last 5 years (2012-2017), while most of her peers' debt increased relatively by higher proportions. (Kenya, Medium Term Debt Management Strategy, 2018, pg 50)

Figure 14: Accumulation of Government Debt (Percent of GDP, 2012-2017)



Source: The National Treasury, Kenya (February 2018: 50), Medium Term Debt Management Strategy for FY2018/19- F Y2020/21, http://www.treasury.go.ke/economy1/debt-reports/category/42-medium-term-debt-strategy.html?download=818:medium-term-debt-management-strategy-for-fy2018-19-fy2020-21

As a comparison basis, Table 16 illustrates the key public debt figures as a comparison basis for Uganda and Kenya.

Table 16: Key Economic Figures: Uganda vs Kenya

Creditor Category	Uganda	Kenya
Annual GDP (2017)	26,456M. USD	79,212M. USD
Doing Business (2017)	127	61
S&P Rating	B	B+
Fitch Rating	B+	B+
Government Debt Increase (2012-2017)	57%	28%
Total Debt (2018)	11.5 bl. USD	42 bl. USD
Debt to GDP (2018)	31.7%	50.8 %
Domestic Debt	3.9 bl. USD	21 bl. USD
External Debt	7.7 bl. USD	25.2 bl. USD
Share of total debt (2018)		
Domestic	33.75%	49.03%
External	66.5%	50.85%
Multilateral	43.6%	17.33%
Bilateral	22.5%	16.23%

Source: countryeconomy.com, MoFPED of Uganda, The National Treasury of Kenya.

Regarding the country debt risk portfolio analysis, the following comparison table (Table 17) shows the key risk factors for domestic and external borrowing of these two countries in terms of cost of debt, refinancing cost, interest rate risk and foreign exchange risk parameters. These risk figures indicate that, the average maturity for the external debt is higher in Uganda and the cost of external debt is lower than that of Kenya.

Table 17: Cost and Risk Characteristics of Public Debt (2018)

		Uganda			Kenya		
Risk Indicators		**External**	**Domestic**	**Total**	**External**	**Domestic**	**Total**
Amount (in billions of USD)		7.70	3.90	11.50	21.38	21.0	42.38
Nominal debt as % GDP		27.80	14.00	41.80	25.6	25.2	50.8
Present Value as % of GDP		17.70	14.00	31.70	21.2	25.2	46.4
Cost of debt	Interest payment as % GDP	0.41	1.93	2.34	1.0	2.9	3.9
	Weighted Av. IR (%)	1.50	13.80	5.60	3.8	11.4	7.5
Refinancing risk	Average total maturity (ATM) (years)	14.40	4.00	10.90	9.7	4.4	7.1
	Debt maturing in 1yr (% of total)	2.30	36.60	13.80	8.5	37.7	23.0
	Debt maturing in 1yr (% of GDP)	0.60	5.10	5.80	2.2	9.5	11.7
Interest rate risk	Average time to re-fixing (ATR) years	13.90	4.00	10.60	8.0	4.4	6.2
	Debt re-fixing in 1yr (% of total)	9.30	36.60	18.40	36.5	37.7	37.1
	Fixed rate debt (% of total)	92.90	100.00	95.30	66.6	100.0	83.1
Foreign exchange (FX) risk	FX risk FX debt (% of total debt)			66.50			50.4
	ST FX debt (% of reserves)			5.30			19.4

Source: MoFPED of Uganda (March 2019: 5), Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2018/19, https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%20GRANT%202019.pdf

and The National Treasury, Kenya (February 2018: 14), Medium Term Debt Management Strategy for FY2018/19- F Y2020/21, http://www.treasury.go.ke/economy1/debt-reports/category/42-medium-term-debt-strategy.html?download=818:medium-term-debt-management-strategy-for-fy2018-19-fy2020-21

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Key websites

- African Development Bank Group:
  https://www.afdb.org/en/countries/east-africa/uganda/
  https://www.afdb.org/en/countries/east-africa/kenya/
- JICA Data Press Releases, Uganda Loan Agreements:

https://www.jica.go.jp/english/news/press/2015/150911_01.htmlhttp://www.jica.go.jp/english/news/press/2010/101101.html

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JICA -Documents & Guidelines:
https://www.jica.go.jp/english/publications/jbic_archive/annual/oda_2004/pdf/loan_5.pdf

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- World Bank Open Data:

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- Kenya:

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About this report

This report is based on eight days of desk-based research. The K4D research helpdesk provides rapid syntheses of a selection of recent relevant literature and international expert thinking in response to specific questions relating to international development. For any enquiries, contact helpdesk@k4d.info.

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