



Transcript of IMF podcast with Axel Schimmelpfennig: “Uganda: Rising Debt and the Promise of Oil”

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MR. EDWARDS: Hello. I’m Bruce Edwards, and welcome to this podcast produced by the International Monetary Fund. This week, Uganda’s rising debt and the promise of new-found oil reserves.

MR. SCHIMMELPFENNIG [Soundbite]: *“In our estimates, the revenues could range on an annual basis from about half percent of GDP initially to about 4 percent at peak production. The challenge that many oil producers face is to manage this well.”*

MR. EDWARDS: While Uganda’s per capita growth has been around 5 percent for the last 20 years, the IMF’s latest economic assessment shows it has fallen to one-half percent. The report says the slowdown is partly driven by drought, regional conflicts and credit growth. But IMF mission chief for Uganda, Axel Schimmelpfennig, says some strategic infrastructure investments could help turn things around.

So, the report does put a lot of attention on this issue of managing government debt. So, what’s behind the significant increase in debt levels?

MR. SCHIMMELPFENNIG: You’re right that in Uganda, we’ve seen government debt increase over the last couple of years. And that’s a topic of debate in the country at the moment. What’s behind it is the government’s development started. Growth is, at the moment, being held back by constraints on infrastructure. So, the government has embarked on a program to build new infrastructure. If you think of the hydro power plants in Karuma and Isimba, you think of the Kampala Entebbe Highway, et cetera, et cetera. But this spending -- this investment needs to be paid for.

MR. EDWARDS: And so, how do you ensure that this investment is done efficiently? And how do you find the financing for these investments?

MR. SCHIMMELPFENNIG: That’s one area where the government is focused on at the moment right now very closely, and we’re also -- our report is focusing on the management of public investment; picking the right projects, making sure they’re prepared the right way and then making sure they’re being executed efficiently, so that at the end of the day, the infrastructure investment that you’re doing will give you higher growth. How it’s financed? Well, in the case of Uganda -- it’s a mix of external financing and also, to some extent, for the overall government needs, domestic borrowing. And, as everywhere, when you borrow,

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you want to make sure you get the mix right. You want to make sure you have as low of an interest rate that you're paying as possible. In the case of external debt, you want to make sure that you're managing the exchange risk that goes with it. External debt you need to repay in dollars, so you need to earn those dollars. So, you need to make sure that all of that can happen. So, you want to find the right mix. You want to find the right place, and you want to make sure that the investment that you're doing will give you that return in the form of higher growth, which benefits everybody in Uganda.

MR. EDWARDS: And is there still a lot of -- there has been in the past, a lot of foreign investment in some of these projects. Is there a continuing foreign investment infrastructure in Uganda?

MR. SCHIMMELPFENNIG: So, the infrastructure investment is mainly carried out by the government, but it is financed a lot with foreign loans.

MR. EDWARDS: And is that a good thing?

MR. SCHIMMELPFENNIG: Yes, that's a good thing, because Uganda itself only has a certain amount of resources to go around. You have a very low level of revenue collection at 13 percent of GDP. It's lower, for example, than other countries in the East African community. And there are many needs. There are infrastructure investment needs. There's social spending needs. So, all of that needs to be balanced, and bringing in some borrowing from abroad can help create the space that you need to carry out the investment.

MR. EDWARDS: And so, with this foreign investment, how does that affect their debt profile?

MR. SCHIMMELPFENNIG: Well, if there's more foreign borrowing, your debt will go up, and the share, all else equal of the foreign borrowing which you need to service, you repay with foreign exchange, with dollars, is also higher. So, you want to invest in areas that give you higher growth and that also give you higher exports so that you earn the dollars that you need to then repay.

MR. EDWARDS: So, Uganda ranks very low, and this is in the report, on the World Bank's governance indicator index, or the governance scale, with corruption being one of the most problematic factors in doing business in Uganda. Is there anything in the report that ensures that donor money gets to the right places?

MR. SCHIMMELPFENNIG: What the IMF has done over the last couple of years is engage very in-depth with the government on public financial management, in that part of that was developing the new financial management act that was passed in 2015, and then a number of subsequent implementing guidelines regulations, et cetera.

And all of that really is focused on creating institutions, on creating procedures, processes and mechanisms that limit the scope for corruption. And if you look at the State of the Nation address of President Museveni this year, he focused explicitly on this. And I think the government is very aware that it's something that they need to look at, and they're

trying to make sure that you limit the scope for corruption, because as I said, there is not that much money going around, so you need to make sure it's being used efficiently for the benefit of the Ugandan people.

MR. EDWARDS: And so, Uganda -- well, the report also suggests that Uganda's new found oil wealth will increase revenues at some point in perhaps years from now. How much are we talking about, and how long will it take, do you think, for Uganda to start reaping the benefits of this oil?

MR. SCHIMMELPFENNIG: So, the government aims to start oil production in about 2020, and you will have oil revenues for almost 30 years, once production has started.

In our estimates, the revenues could range on an annual basis from about a half percent of GDP initially to about 4 percent at peak production. So, it's a substantial amount of additional revenue that the government will have. The challenge that many oil producers face is to manage this well. One aspect of that is the price of oil. One year it's up; the next year it's down. And that impacts your revenue. So, you'll need to find a way to insulate yourself from that volatility so that you can have a constant flow of revenue that you can use for spending. But that's still four or five years down the line, and at the moment, what you want to focus on is the infrastructure investment, making sure it's done well, is investment in the oil sector; make sure all the elements are there, so that oil production can start as early as possible. And then, also over the next four or five years, develop that framework. How do we want to spend that money once it starts flowing so that it really benefits Uganda?

MR. EDWARDS: Meanwhile, what do they need to be doing to increase revenues, because they obviously do need to increase revenues between now and then?

MR. SCHIMMELPFENNIG: Right. The government has increased its revenue take over the course of the policy support instrument that is ending now in June by about a half a percent of GDP every fiscal year. And the plan is to continue doing that. The measures that have been taken are partly what we would call tax policy, so you change a tax rate; you think of what other taxes or fees you would want to complement your system, and also, a lot about administration. How is the money collected? How are you making sure that everybody pays their fair share?

One area, actually, with this report that we're focusing on is international taxation. You have companies that are based in Uganda and abroad, and they have -- and it's a global phenomenon, actually, they have the opportunity to manage their taxes. Right? They can choose the way they structure their businesses if they want to pay in Uganda or if they want to pay somewhere else. And as the international community, we're interested. As Uganda, you're interested in making sure that companies pay taxes for the activities in your country. So, that report gives you a bit of an idea of where Uganda stacks up there, and what can be done to make sure that companies active in Uganda pay their fair share to the country.

MR. EDWARDS: That was Axel Schimmelfennig, the International Monetary Fund's mission chief for Uganda. You can read the IMF's latest economic assessment for Uganda at imf.org.

MR. EDWARDS: And if you like this podcast, you can subscribe on iTunes or on your favorite podcast app. Just search for IMF podcasts.

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