HOW TO LOOT AN AFRICAN COUNTRY: Will unsustainable debts lead to state capture in Uganda?

In January 2018, at the annual Makerere University Tumusiime-Mutebile Centre of Excellence (TMCE) Business Dialogue, the Ugandan Minister of Internal Affairs, Ruhakana Rugunda, stated that Uganda was now in a position to finance 70% of its budget. However, despite the rosy declaration by the National Resistance Movement stalwart, all indications point to an economy in free fall and one not poised to make major economic breakthroughs.

Basic healthcare remains a serious challenge: despite a commitment made with several other African countries to allocating 15% of their budgets to the health sector, Uganda allocates less than 10% (just over 6% this year) of its budget to health. A cholera outbreak in western Uganda in late 2017 signaled yet another drug stock-out. There were reports from the central region of a lack of drugs to treat hepatitis-B. A major drug and consumables (e.g. gloves) shortage was also reported in Mbale in eastern Uganda in January 2018. The Mbale Regional Referral Hospital, which serves a catchment area of four million people, had received no drug consignments for two months.

Then in February this year, the Parliamentary Accounts Committee announced that a loan taken in 2016, in part to pay for drugs bought by the National Medical Stores, was not in fact passed on to the organisations for which it was borrowed. The Speaker of Parliament ordered a special audit to establish the use of the money.

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The Secretary to the Treasury, Keith Muhakanizi, has so far explained that the funds were used for general budget support required in the last fiscal year: to plug a UGX 288 billion revenue shortfall, supplementary expenditure of UGX156 billion, and to substitute more expensive domestic borrowing amounting to 280 billion Uganda shillings.

Parliament is up in arms because when approval for the loan for budget support was first sought, it was rejected. Following a revised request emphasising the need for essential drugs, the request was approved. However, Parliament says it was duped as the beneficiaries were never advised about the arrival of the funds.

Muhakanizi is adamant that the money was banked in the government's consolidated fund, along with all other sources of funds, and disbursed in the usual manner. One source says it is clear from the loan documents that it was never tied to the purchase of drugs. Furthermore, it appears that Parliament approved the loan on verbal presentations as to its usage, not on the loan documents. If this is so (the Auditor General is still investigating), then Parliament has revealed itself to be negligent in scrutinising and approving loans.

The underlying problem appears to be that, even with the PTA loan, there were simply insufficient funds for government business and the Treasury was unable to disburse all the money required by all sectors, even for essential expenditure like drugs. (Non-essential expenditure seems easier. It will be remembered that in 2016 a gratuity of UGX6.2 billion was paid by the President to 42 celebrity public servants as a reward for carrying out their ordinary duties. The Secretary to the Treasury was part of this privileged group.)

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The cash crisis persisted in 2018. At the beginning of the year, news filtered through that universal secondary education was being scaled back, with the facility being closed in some 800 private schools that have been implementing it through public-private partnerships. Over 200,000 students are expected to be affected.

This is not surprising as there has been a shortfall in expected revenues of

UGX300 billion in the first half of the current fiscal year, according to the Finance Minister, Matia Kasaija. The shortfall is expected to double by the end of the year. By way of explanation, Kasaija claims that the budget estimates for 2017/1018 were wrong in some cases and there have been unexpected expenditures in others. The upshot, says Kasaija, is that ministries, departments and agencies have put in requests for an extra UGX2.3 trillion. This is needed for salaries, pensions, security and social assistance grants to low-income households, energy, as well as for the development budget. So far, only 38% (870 billion) of the excess expenditure has been approved in supplementary budgets.

Speaking of energy, Uganda is also experiencing a shortage of petrol. As with all fuel shortages, explanations include the refurbishment of infrastructure for the storage and transport of fuel, limited international supplies, delays in the construction of a pipeline from Kenya to Uganda, Kenyans, and myriad other excuses. What is not clear is why Uganda's statutory fuel reserves are not replenished and in fact *reserved* for such emergencies. Why are the fuel reserves sold on the open market?

At the time of writing, news of the Uganda Police's budget woes broke. The latest quarterly treasury release of UGX137 billion is sufficient only to fund operations at the Inspector General of Police's headquarters and in three administrative regions, namely, Kampala Metropolitan, East Kyoga, Sipi and East Rwenzori. This means other operations, including criminal investigations and intelligence in Northern, Central and much of Western Uganda, are not funded. The Inspector General of Police has explained that operations will be rotated i.e. the next release will be used on operations in the areas that lost out this time.

Even though food is provided for, the association of police suppliers has suspended supplies while it demands payment of UGX 33 billion in arrears. This figure almost exactly matches the amount the police expects to spend on tear gas alone in a year. Total police arrears amount to UGX125 billion or a quarter of the annual budget. Suppliers have claimed that they are often threatened when pushing for payment.

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> *some months later, when he had forgotten about his offer, he received a telephone call from Zambia and a voice said, "The mines are yours."*

Primary health, education and transport – all designated as priority areas for development – are affected by what can only be the slow-motion collapse of the Ugandan economy. Contrary to Rugunda's misleading claims in January and talk of an "economic take-off", the country is in fact struggling to finance 47% of its budget through revenues, according to Parliament Watch, an independent NGO; the other 53% is to be financed by more loans. Foreign exchange fluctuations and further falls in commodity prices could make the situation worse.

Konkola, Hambantota and other stories

The trouble with loans to administratively weak countries and to full-on captured states is that they are irresponsibly used and are unsustainable. It is also public knowledge that significant portions of public funds, which would include loans and grants made to the government of Uganda, if not squandered are stolen outright.

Unsustainable debt will eventually lead to a loss of Uganda's ability to even generate income. Prime examples of this dynamic would be the Konkola Copper Mines in Zambia, Hambantota Harbour in Sri Lanka and Mozambique's liquid natural gas deposits.

In 2014, under pressure from the World Bank to repay its debt, the Government of Zambia sought to sell Konkola, Zambia's largest copper mines. The price was set at US$400 million, presumably after professional evaluation of Konkola's potential revenues. The Indian entrepreneur Anil Agarwal who bought Konkola tells the story of how he did not even have US$4 million at his disposal when he approached the Zambian government but "took a chance" and offered US$25 million for the mines. There may be some details missing from his account, but he claims that some months later, when he had forgotten about his offer, he received a telephone call from Zambia and a voice said, "The mines are yours."

He then found himself in the presence of President Mwanawasa and later the Zambian Parliament, being hailed as a great man. Addressing an investment conference in Bangalore in 2014, Agarwal boasted that Konkola had earned his company, Vedanta, between US$500 million and US$1 billion annually since he bought it – more than even its original sale price.

Another example is from Hambantota on the southern tip of Sri Lanka, which derives from an ancient civilization noted for its irrigation and prosperous salt production industry. The harbour is the site of a port built in 2010 with a loan from China. A feasibility study for international ship-building, repair and freight services looked good on paper. However, like Uganda's budgets, the feasibility study did not pan out and Sri Lanka defaulted on the loan repayments. Under the terms of the agreement, the harbour became the property of China for the next 99 years. There was an outcry, of course. Issues such as the initial viability of the loan were raised. Readjustments followed and now the harbour is a joint venture between China and Sri Lanka. Joint ventures managed by economic predators are no more profitable than unsustainable loans.

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More recently, in 2017, Mozambique lost future revenue from newly discovered natural gas deposits when the government defaulted on secret loans of US$2 billion. There too, a dodgy feasibility study showed that the loan was sustainable but it turns out it will take Mozambique ten years and most of the gas income to cover the loan and penalties for defaulting. The military and fishing equipment that it was ostensibly used for was being searched for by an international audit firm. The fishing fleet bought with some of the funds was rusting in dock as the business proved to be a loss-maker from the start. The government admitted that the fishing project was, in fact, a front for military acquisitions.

Of the many accounts of the Mozambican debt crisis, Ugandans and citizens of other developing countries should at least read the one by Bodo Ellmers of the Committee for the Abolition of Illegitimate Debt, if only to form an idea of how our own oil discoveries could be squandered even before commercial production begins.

Naturally, after following developments in Zambia, Sri Lanka and Mozambique, one becomes nervous about Uganda's situation. The existence and terms of loans – the properties mortgaged – remain a state secret. It is possible that when (not if)

Uganda defaults, public assets or whole districts could become the property of the People's Republic of China, just like Hambantota harbour. Chinese extractors are already mining the Lweera Wetland for sand at an industrial rate. The question is, could this official departure from national environmental policy be part of a secret concession sold to the Chinese by the usual suspects?

Is there a danger that title to or rights in other state assets will be or have been transferred to someone like Anil Agarwal or the Guptas, now that the latter have been flushed out of South Africa? It is a reasonable question, patriotic even, given that Uganda is a veteran of cartoonish business deals.

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A recent Department of Justice statement revealed the *modus operandi* for looting state assets employed by predator "investors" and their local agents when it charged one Patrick Ho with bribing the Foreign Minister, Sam Kutesa, in return for assorted business favours for a Chinese state entity. These costly concessions included, but were not limited to, direct access to the President (resulting in) extended tax holidays, free land by the square kilometer, forests, transfers of public machinery and plants on promises of future payments after they become profitable, and so on. It is in the public interest that Parliament investigates the sustainability of Uganda's entire debt burden and what the country stands to lose in the event of a default.

Restitution of control

The process of recovery from this parlous state will not be easy. Taking South Africa as an example, a state under the control of regime stalwarts and foreign divestors – the Gupta brothers – it took the constant coordinated efforts of the Economic Freedom Fighters to oust ex-President Jacob Zuma by: a) keeping the public informed about the inner workings of the regime; and b) naming the perpetrators. Working within the law, the EFF rejected attempts to normalise state capture by repeatedly bringing government business in Parliament to a halt. The resulting international spotlight on South Africa made Zuma's position untenable. He resigned days after he was unable to make a last State of the Nation address.

Uganda is still in the normalisation-of-fraud phase during which the illusion of a country on the move is perpetuated. Increasingly elaborate state functions, like the Budget Speech, the State of the Nation address and Independence and Heroes day celebrations belie the desperate realities.

Meanwhile, envoys from complicit countries continue to make high-profile visits to Ugandan government officials, even those implicated in financial scandals. The World Bank and the International Monetary Fund churn out evaluation reports deliberately fabricating achievements and downplaying the impact of failures in administrative and economic reforms. Concrete examples can be found in the evaluation of the Economic and Financial Management Programme, the Public Service Performance Enhancement Programme and the Education Sector Adjustment Credit. [1]

Until the Ugandan Parliament recognises the capture of the state for what it is, and by whom, and becomes serious about scrutinising public debt, Uganda is going nowhere.

[1] For records of misleading World Bank reports on Ugandan projects, see Mary Serumaga, The case for repudiation of Uganda's public debt, 8 December 2017 by Mary Serumaga published by the Committee for Repudiation of Illegitimate Debt.