ECONOMIC POLICY FOR UGANDA'S RECOVERY

A focus on Special Drawing Rights, public debt and Covid-19

CSOs can effectively advocate for responsible and impactful engagement with SDRs, ensuring that these resources contribute to the well-being of all citizens and the long-term development of the country.

Table of Contents

List of tables

List of Figures

Acronyms and Abbreviations

ACRONYM	MEANING
AfDB	African Development Bank
AiA	Appropriation in Aid
BWIs	Bretton Woods Institutions
COVID	Coronavirus Disease
CPIA	Country Policy and Institutional Assessment
DRMS	Domestic Revenue Mobilization Strategy
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
EAC	East-African Community
ECA	Economic Commission for Africa
ECLAC	Economic Commission for Latin American Countries
FY	Financial Year
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
IFMIS	Integrated Financial Management System
IMF	International Monetary Fund
LIBOR	London Inter-Bank Offered Rate
MDRI	Multilateral Debt Relief Initiative
MoFPED	Ministry of Finance, Planning and Economic Development.
MoH	Ministry of Health
NDP	National Development Plan
OAG	Office of the Auditor General
ODA	Official Development Assistance
OPEC	Organization of Petroleum Exporting Countries
PFM	Public Financial Management
PIMS	Public Investment Management Systems
SDR	Special Drawing Rights
SSA	Sub-Saharan Africa
UDN	Uganda Debt Network
UKEF	United Kingdom Export Fund
URA	Uganda Revenue Authority
URMCHIP	Uganda Reproductive Maternal Child Health Services Improvement Project
USD	United States Dollar
VAT	Value Added Tax

1.0 BACKGROUND AND CONTEXT

1.1 Introduction

Uganda stood as the inaugural recipient of debt relief under the Highly Indebted Poor Countries (HIPCs) initiative, securing a substantial reduction of $650 million in the 1990s. Subsequently, in 2006, through the Multilateral Debt Relief Initiative (MDRI), the country was graciously granted complete debt forgiveness and cancellation, leading to a significant decrease in its overall debt burden to debt stock of USD 1.6 billion[1]. Consequently, Uganda's susceptibility to debt distress underwent a significant reduction, transitioning from a high-risk status to a low-risk status.

With the onset of the COVID-19 Pandemic in 2020, growth prospects experienced a significant decline, leading to a shift in the growth-weighted public interest rate balance towards the negative. Fiscal deficits expanded, going against the principles outlined in the Charter of Fiscal Responsibility, Uganda's public debt has since risen to USD 21.74 billion at the end of 2022[2], and consequently, Uganda's debt risk moved from a low level to a moderate one. The Mid-Term Review of the third National Development Plan (NDP III) projected that Uganda could soon transition to a higher level of debt risk. The country's developmental requirements continue to surpass the resources at hand, resulting in the anticipation of a sustained elevated state of public debt. During the pandemic, Uganda benefited from several multi-lateral debt initiatives to counter the pandemic and restore economic recovery including benefiting from the global allocation of SDRs with the equivalent of US$491.5 Million (about 1% of Uganda's GDP))[3]

Uganda is holding of SDR as share of cumulative SDR allocations is less than 100% suggesting usage of the SDR allocations thereby attracting interest[4]. Uganda allocated 50% of the 2021 funds to address the budget deficit for the fiscal year 2021/22, emphasizing crucial sectors such as education, health, water, and sanitation initiatives. This allocation encompassed the funding required for the resumption of school operations[5].However, information on utilization for fiscal purposes is scantly available and not effectively traceable in the budget documents.

Over the last 2010-2023, Uganda's average Country Policy and Institutional Assessment (CPIA) score concerning debt policy has shifted from being a strong performer to now being categorized as a moderate performer. Presently, a notable shift has occurred, with one out of every five shillings collected in revenue allocated to interest payments—a marked increase from the mere 10% recorded in 2013. This shift positions Uganda within the ambit of countries categorized as experiencing a high risk of debt stress or burden[6]. In comparison to the Sub-Saharan Africa average for interest payments as a percentage of GDP, Uganda's share is threefold[7]. The combination of the aforementioned factors has led to a downgrading of Uganda's credit rating over time.

The economic recovery of Uganda in the aftermath of the COVID-19 pandemic presents a multifaceted challenge, with a critical focus on the country's public financing landscape and the potential utilization of Special Drawing Rights (SDRs) in the recovery process adds another layer of complexity.

As such, UDN, has examined the intricacies of Uganda's public financing landscape including exploring the potential of SDRs in the context of economic recovery. These insights from the study will enable policymakers and stakeholders to make informed decisions and implement effective strategies to revitalize Uganda's economy, ultimately fostering sustainable and inclusive growth in the post-COVID-19 era.

Immense appreciation goes to all the information sources and above all the development partners (Bill and Merinda gates foundation and AFRODAD) who have facilitated production of this report.

EXECUTIVE SUMMARY

Uganda, like many other Low-Income Countries (LICs), has faced significant economic challenges due to the COVID-19 pandemic. The government has implemented various measures to mitigate these challenges and promote economic recovery. One aspect of this recovery strategy is the utilization of Special Drawing Rights (SDRs) which are international reserve assets created by the International Monetary Fund (IMF) to supplement member countries' official reserves . SDRs provide liquidity and serve as a stable unit of account for transactions. For Uganda, SDRs are important as they can be used to bolster foreign exchange reserves, support balance of payments, and enhance economic stability. In August 2021, Uganda received a significant allocation of about SDR 365 million worth approximately USD 492 million, to contribute to the country's recovery efforts.

Uganda strategically utilized SDRs to strengthen its reserves and provide fiscal support. With an allocation of approximately USD 235 million in reserves, Uganda brought back its foreign exchange reserves to sustainable levels at 4.4 months of import cover while also inching closer to meeting EAC target of 4.5 Months of import value, enhancing its liquidity and economic stability. Additionally, about half (USD 250 million) of the SDRs was allocated towards fiscal support, especially in social sectors of health, education as well as water and sanitation to address urgent economic needs and mitigate the impacts of the COVID-19 pandemic. This dual approach demonstrates Uganda's proactive stance in utilizing SDRs to both fortify its reserves and provide crucial fiscal support during these challenging times.

However, Uganda's economic recovery is also impacted by its evolving public debt situation. Over the years, the country's public debt has increased significantly reaching USD 21.7 billion by the end of 2022 representing around 49.6% of GDP while 34% of her domestic revenue is consumed by debt service. The COVID-19 pandemic further exacerbated this situation, as the government had to secure emergency loans worth UGX 4,361.5 billion in FYs 2019/20 and 2020/21 to finance its response and support the economy. While these loans were necessary, they have added to Uganda's debt burden and raised concerns about debt sustainability.

At the same time, there have been concerns about the lack of transparency in utilization of SDRs and loans obtained during the COVID-19 pandemic. Limited transparency can hinder accountability, increase corruption risks, and undermine public trust in the government's handling of funds. Uganda must address these transparency issues and enhance governance frameworks to ensure effective and efficient use of resources. It is also worth highlighting that although SDRs are a credible fiscal option, Uganda receives a relatively small amount due to its economic size. With an allocation of 492 million, it represents only 1% of Uganda's GDP. Additionally, it is important to note that SDRs are not regularly given, as the last allocation before the one of 2021 was in 2009.

Finally, Uganda's economic recovery efforts require a multifaceted approach that includes the utilization of SDRs, addressing the evolving public debt situation, and improving transparency in the utilization of public funds especially the SDRs. The allocation of SDRs provides a significant boost to Uganda's liquidity and can support its recovery efforts. However, it is essential for the government to carefully manage its public debt and ensure debt sustainability. Additionally, enhancing transparency and accountability in the financial sector is crucial to building trust and promoting effective use of resources. By addressing these challenges, Uganda can navigate its way towards sustainable economic growth and development in the post-pandemic era.

1.2 Methodology and Scope

The assessment and analysis adopted a mixed method approach involving both quantitative and qualitative methods for data collection and analysis that is suitable for gathering enriched information. Other measures employed include;

a) Documentary Review and Analysis: Our approach relied mainly rely on desk review and analysis of official documentation of reports. The following process was followed in preparing this report.

(i) Secondary public debt data collection and synthesis. A comprehensive review of existing literature, reports, and studies related to economic recoveries, public financing, Special Drawing Rights, and COVID-19 impacts on Uganda's economy was conducted. Secondary data sources such as government reports, financial statements, and economic indicators were analysed. This provided a theoretical foundation and background information for the study.

(ii) Drafting the report, focusing on generating evidence and understanding of consequences of the debt management policies used by external financers with a special focus on IFIs and Special Drawing rights, before, during, and after the crisis experienced in Uganda.

1.3.1 Scope

The analysis covered three (3) dimensions: i) Conceptual Scope – focusing on economic recovery in light of the global public financing architecture with a special focus on SDRs and COVID-19; ii) Duration Scope covering the period 1997 to 2023 to capture the trends and implications therein; iii) Coverage scope: the analysis was predominantly focused on Uganda. It also includes impacts and lessons from SSA countries and other parts of the world. The team drew review questions from the ToRs to get information on the following key issues:

- ★ What is the current state of Uganda's public financing landscape in the aftermath of the COVID-19 pandemic?
- ★ How can Uganda optimize its public financing mechanisms to support economic recovery and mitigate the negative effects of the pandemic?
- ★ How transparent and accountable was Uganda in the utilization of COVID-19 funds, and what mechanisms are in place to ensure proper monitoring and oversight?
- ★ What role can SDRs play in Uganda's economic recovery, and what are the potential challenges and opportunities associated with their utilization?

1.3.2 Study Limitations

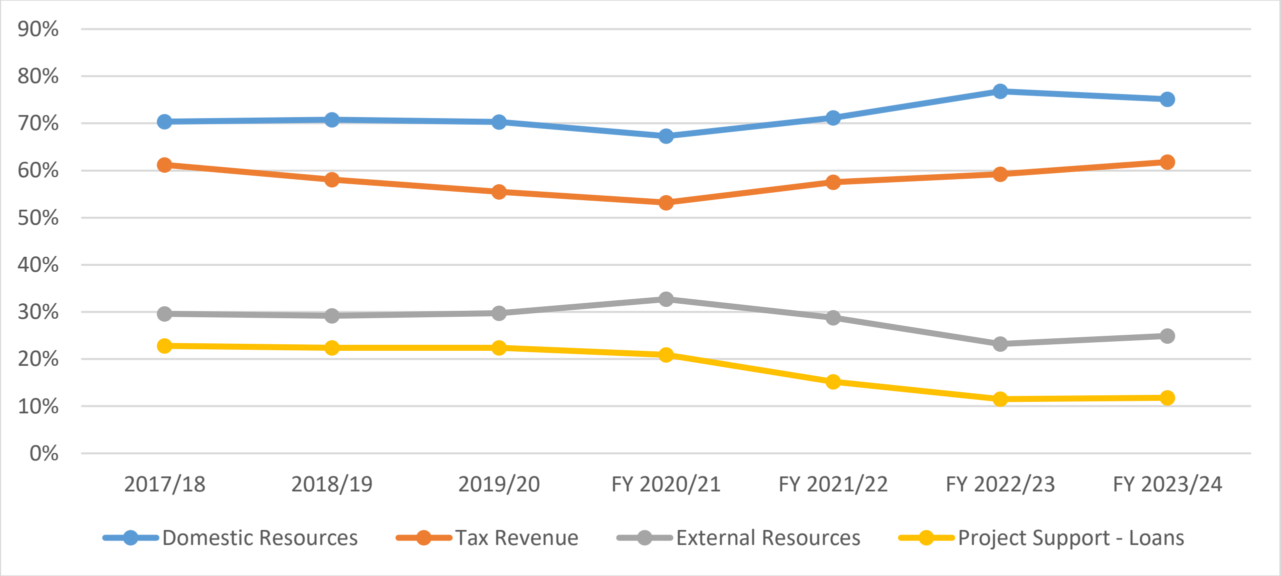
Data Availability: There were many instances of limited disaggregated data especially on the utilization of COVID-19 funds and SDRs. For instance, there were no reports detailing and breaking down the historic utilisation of SDR other than showing the total amounts in budget support and forex reserve accumulation. Noteworthy that SDR data is quite sensitive since it borders on establishing an audit trail of the resources[8].

Data Reliability: The reliability and accuracy of the data obtained from various sources, including government reports and financial statements was varied. Inaccurate or incomplete data may have affected the validity of research findings in some instances.

1.4 Uganda's public financing architecture

Uganda's public finance architecture presents the structure and framework through which the government manages its finances, including revenue generation, debts and grants, Budgeting Process, Public Expenditure Management, and Financial Accountability Mechanisms[9]. The country's financing sources are composed of both domestic and external sources (See Figure 1-1). Domestically, Uganda finances her development needs through domestic borrowing and tax revenue that includes income tax, value-added tax (VAT), excise duties, customs duties, and other levies. The government also generates revenue from non-tax sources, such as fees, fines, licenses, and royalties. The discovery of oil has also availed various sources of revenue under the petroleum fund.

Figure 1-1: Trend of budget financing FY 2017/18 to FY 2023/24



Source; MoFPED budget speeches (FY 2017/18 to FY 2023/24)

Prior to COVID-19, Uganda's public financing landscape was characterized by a reliance on traditional revenue sources such as taxes, grants, and loans from international organizations and countries. Before the pandemic, Uganda was already experiencing shifts in its public financing strategies, but the arrival of COVID-19 intensified these trends and led to new developments. ~~The government's fiscal policies focused on infrastructural development, education, and healthcare~~[10]. However, there were challenges in ensuring efficient revenue collection, which often led to budget deficits. As a result, Uganda, which had increased domestic financing beyond 70% in the years preceding COVID-19, dropped to 67% in FY2020/21 while external financing especially loans reached 32.7% of the budget. However, the trend has since reversed with a reduction in project support loans and more resources that are domestic (see Figure 1-1).

The economic downturn caused by lockdowns and restrictions led to reduced tax revenues and increased expenditures on healthcare and social support. This acted as a catalyst for reassessing public financing options. In response to the new challenges posed by COVID-19, Uganda began exploring alternative financing mechanisms. The government sought debt relief and financial aid from international institutions, while also considering innovative solutions *interalia* social impact bonds and public-private partnerships Pension Funds, Equity Investment Financing, Private Domestic Investment, Foreign Direct Investment, Philanthropy, Crowdfunding, Climate finance, International Bonds, Islamic Finance[11]. These efforts were aimed at bridging the financing gap created by the pandemic and ensuring continued economic stability.

Furthermore, the pandemic highlighted the importance of digitalization in revenue collection and financial management. Uganda accelerated its efforts to enhance digital payment systems for tax collection such as e-filing and electronic payment[12]. These changes not only improved revenue generation but also reduced corruption risks and improved overall economic governance.[13]

Uganda's Public Investment Financing Strategy (years) is a crucial component of the country's development agenda. With a focus on infrastructure development and economic growth, the strategy aims to mobilize resources for public investments. The strategy also emphasizes the importance of attracting private sector participation, with a target of increasing private investment to 20% of GDP by 2030.

2.0 UGANDA'S PUBLIC FINANCING OPTIONS

2.1 Understanding SDR allocations: What are they and how are they used?

SDRs are a supplementary reserve asset created by the International Monetary Fund (IMF) to bolster global liquidity[14]. They serve as a unique financial instrument, representing potential claims on the freely usable currencies of IMF member countries. SDR allocations are based on a country's IMF quota, meaning that larger economies contribute more to the SDR pool, and governments can access SDRs in proportion to their quotas.

While SDRs are not a physical currency and may not be referred to as money in the conventional sense, the SDRs satisfy the traditional definition of money in many respects; they are a store of value because nations keep a portion of their reserves in SDR-denominated assets. SDRs can be used as a medium of exchange, as they can be exchanged for widely accepted currencies[15] and finally they are a unit of account because the IMF keeps its books and records, assets and liabilities in SDR units[16].

Generally, according to the IMF Questions and Answers on Special Drawing Rights ,SDRs) are defined by the following elements[17]

1. *Composition:* SDRs are essentially a basket of selected international currencies. The composition of this basket is periodically reviewed and revised to reflect changes in the global economy. The basket of currencies includes the U.S. dollar (USD), Euro (EUR), Chinese renminbi (CNY), Japanese yen (JPY), and British pound sterling (GBP).
2. *Valuation:* The value of an SDR is determined daily by the IMF based on the exchange rates of the basket currencies. It's important to note that the value of an SDR in terms of a specific currency can fluctuate daily.
3. *Allocation:* SDRs are allocated to IMF member countries in proportion to their IMF quotas. This allocation is not a loan; member countries receive additional SDRs as an asset.
4. *Use:* Member countries can use their allocated SDRs for various purposes, including:
    - Exchange them for freely usable currencies with other IMF member countries.
    - Hold them as part of their official international reserves.
    - Use them in transactions with other member countries.

- Contribute them to the IMF's Poverty Reduction and Growth Trust (PRGT) to support low-income countries.

5. *Interest*: The IMF pays interest to its member countries on the SDR holdings. The interest rate is typically lower than what countries could earn in other financial instruments.
6. *Role in Global Reserves*: SDRs serve as part of the global reserves held by central banks and governments. They provide countries with liquidity and can be used to stabilize their economies during balance of payments crises.
7. *Global Financial Crises*: SDR allocations have been used during significant global financial crises to provide liquidity to member countries. For example, during the global financial crisis in 2009, the IMF made a large allocation of SDRs to its member countries to help address the crisis.

2.2 Trend of SDR Allocations to Uganda

1n 1997, Uganda received her first SDR allocation of 6.7 million SDRs (Equivalent to approximately USD 9.3 million at the time) under the Fourth Amendment of the IMF's Articles of Agreement[18]. This was to enable Uganda's economic resilience and stability after reintegration and policy reforms. In August 2009, Uganda received another SDR allocation of SDR 224 million[19] (equivalent to sh. 670 billion at the time). In September 2009, the IMF further availed SDR 9.8 million (sh.49 billion) bringing the total to SDR 143 million (sh720 billion). The allocation was part of the IMF's efforts to respond to the 2008 global financial crisis. It is important to note, however, that before 2021, the bulk of SDR allocations went to foreign exchange reserves.

The Advent of COVID-19 pandemic posed unprecedented challenges to economies worldwide. In August 2021, the IMF approved a historic allocation of USD 650 billion to provide liquidity support to member countries. Uganda also received an allocation of SDR 346 million (equivalent to USD 492 million)[20]. The IMF hoped that the SDR allocation would play a crucial role in stabilizing the balance of payments and stimulating economic recovery. Unlike the earlier allocations that focused on forex reserves, the 2021 allocation was extended to fiscal use covering healthcare initiatives, support vulnerable populations, and address fiscal challenges resulting from the pandemic's impact on revenues and expenditures[21].

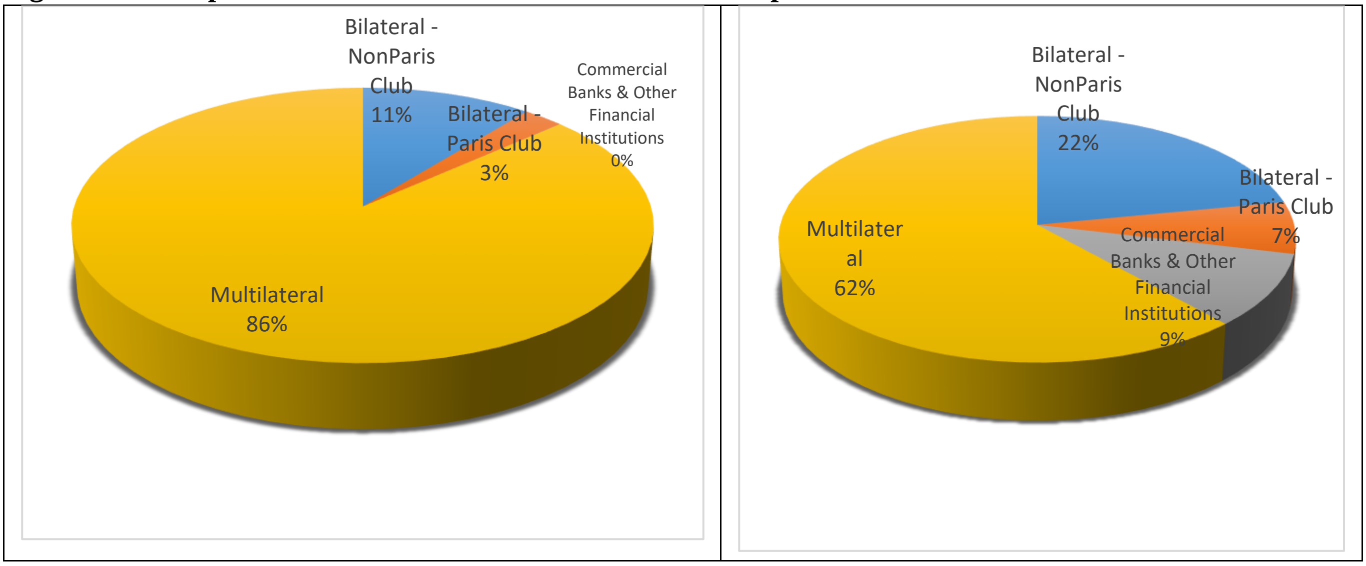
3.0 EVOLUTION OF UGANDA'S PUBLIC DEBT

3.1 Overview of Uganda's debt structure, the key players, and holders

Uganda's debt structure consists of both domestic and external debt. The key players in Uganda's debt landscape include the Ugandan government, international financial institutions, bilateral, and commercial lenders. The Ugandan government is a major borrower from the domestic market and is responsible for issuing domestic debt through treasury bills and bonds. These instruments are mainly held by domestic investors such as commercial banks, pension funds, and insurance companies. In terms of external debt, Uganda receives loans and financial assistance from international financial institutions like the International Monetary Fund (IMF), World Bank, and African Development Bank (AfDB). Bilateral lenders, including countries like China, also play a significant role in Uganda's external debt.

Uganda's composition of Public debt has since shifted from traditional creditors e.g. Paris Club creditors (PC)[1] (including countries like France, Germany, Japan, and the United Kingdom that give financial support on concessional terms) and concessional multilateral sources to commercial and non-Paris Club creditors (new bilateral creditors). Over a decade, the share of multilateral concessional debt declined from 86% in FY 2013/14 to 62% in FY 2022/23. At the same time, the share of bilateral non-Paris clubs doubled to 22% from 11% while commercial debt increased to 95 from almost 0% a decade ago (See comparisons in Figure 3-1).

Figure 3-1. Composition of external debt 2013/14 *Vis-vee* composition of external debt 2022/23



Source: *Extracted from MoFPED reports on public debt, guarantees, other financial liabilities and grants*

The shift from multilateral borrowing to bilateral and commercial borrowing has worsened Uganda's debt terms in several ways. Firstly, higher interest rates associated with bilateral and commercial loans increase the debt burden, diverting significant resources away from essential

[1] *Bilateral Paris Club (PC) creditors refer to individual countries that are part of the PC, a group of creditor nations that negotiate debt restructuring and relief with debtor nations. Uganda has several PC creditors, including countries like France, Germany, Japan, and the UK. These creditors play a crucial role in providing financial support and debt relief to Uganda, helping the country to manage its debt, stimulate economic growth, and achieve SDGs.*

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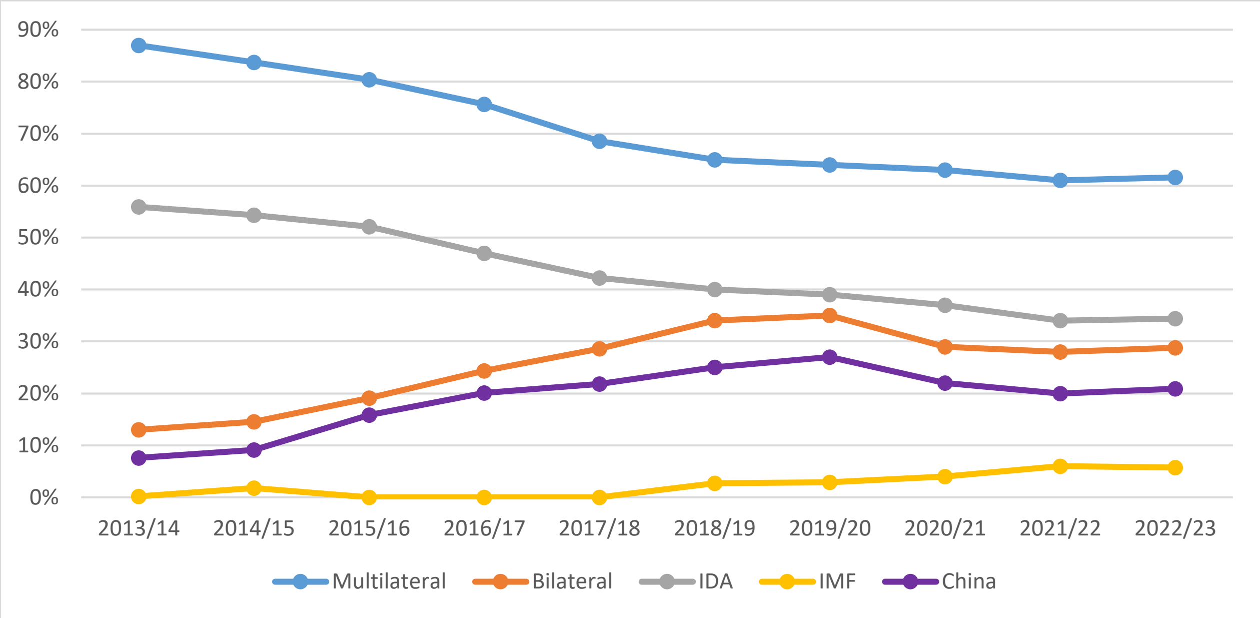
public services and development projects. Secondly, shorter repayment periods can create liquidity challenges, forcing the country to seek additional loans or refinance existing debt at higher costs. Figure 2-1 indicates a major shift from multilateral to bilateral lenders and the emergence of China as a significant lender to Uganda while the share of loans from IDA has reduced over time (See figure 3-2). Bilateral (non-Paris Club) and commercial borrowing often come with non-concessional terms that can put a strain on a country's finances, potentially leading to higher debt servicing costs.

Figure 3-2: Composition of Uganda's lenders FY2013/14 - FY2022/23

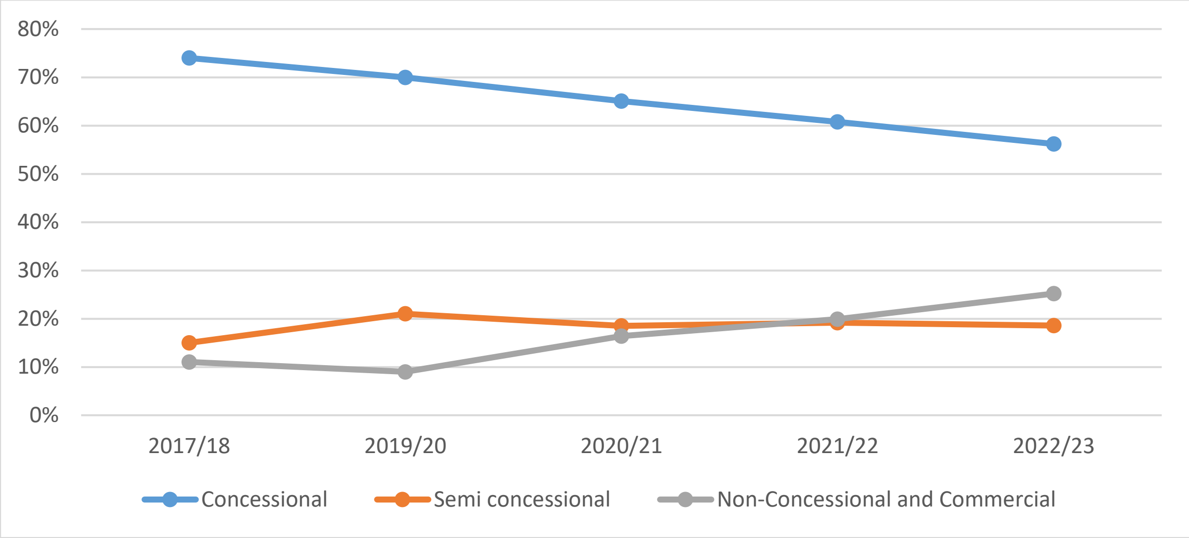


Source: Extracted from MoFPED reports on public debt, guarantees, other financial liabilities, and grants for FYs 2013/14 - 2022/23

3.1.2 Concessionality

Uganda's debt composition has been shifting towards non-concessional borrowing over time. Concessional debt has reduced from 74% of the total debt in FY 2017/18 to 56.2% in FY 2022/23. At the same time, non-concessional and commercial debt has increased from 11% to about 25.2% (see Figure 3-3). The surge in non-concessional borrowing is largely driven by Chinese lending, particularly EXIM Bank which now accounts for 21% of total external debt (94% of bilateral loans) in FY 2022/23 compared to just 7.6% in FY2013/14.

Figure 3-3: Share of external Debt stock by Concessionality



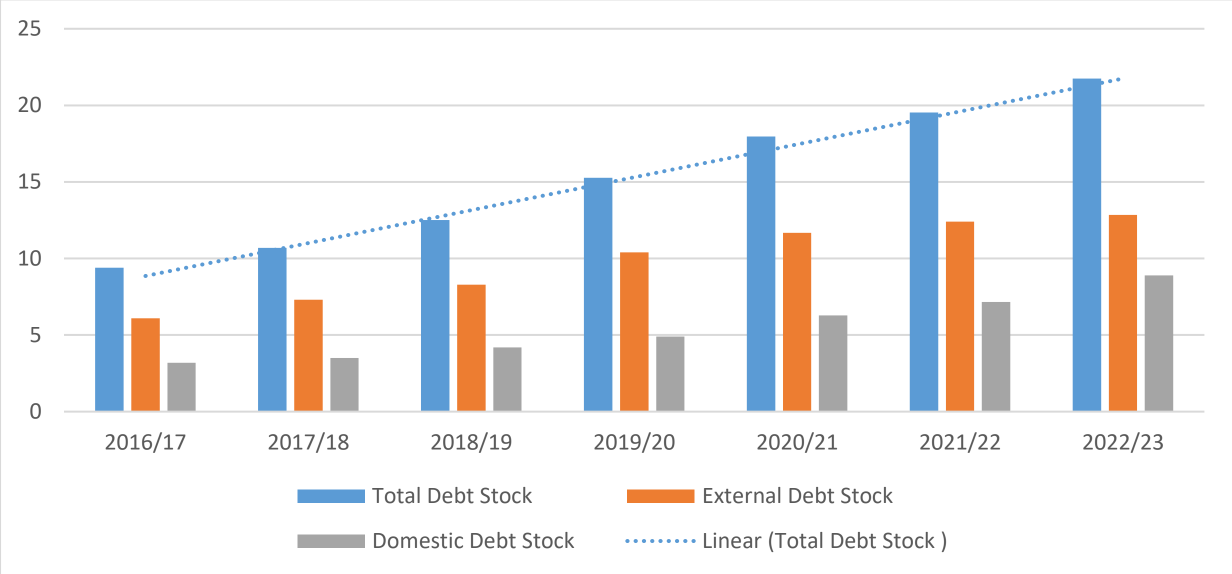
Source; MoFPED reports on public debt, guarantees, other financial liabilities, and grants

3.2 Debt sustainability challenges

Uganda was recently downgraded from low to moderate debt risk with pronounced medium term outlooking risks. Uganda faces significant challenges in maintaining debt sustainability as it recovers from the effects of COVID-19. Rising debt levels, a high debt-to-GDP ratio, increasing debt service costs, a shift towards non-concessional loans, and exchange rate volatility all pose potential risks. The government must implement prudent debt management strategies, enhance revenue mobilization efforts, and prioritize investments that promote sustainable economic growth[22].

Rising trend of Public Debt Levels: Uganda's total public debt has been steadily increasing over the years. As of June 2022, the DSA indicates that the country's total debt stood at approximately USD 21.7 billion, compared to USD 9.44 billion in FY 2016/17 which represents an increase of 131% in only 6 financial years[23] (figure 3-4). This upward trend in debt accumulation raises concerns about debt sustainability and the country's ability to service its debt obligations in the future.

Figure 3-4: Evolution of Uganda's public debt FY 2016/17 to FY 2022/23 (USD Billion)



Source: Extracted from MoFPED reports on public debt, guarantees, other financial liabilities, and grants for FYs 2016/17 - 2022/23

Debt-to-GDP Ratio: The debt-to-GDP ratio is a crucial indicator of a country's debt sustainability. In Uganda's case, this ratio has been steadily increasing, reaching 49.6% in FY2021/22 down from 48.4% in 2020/21[24]. This implies that the country's debt burden is approaching half of its annual economic output and approaching the EAC convergence criteria recommended threshold of 50% debt to GDP ratio. A high debt-to-GDP ratio can limit the government's ability to invest in critical sectors such as healthcare, education, and infrastructure, hindering long-term economic growth.

Debt Service Costs: The cost of servicing debt is a significant challenge for Uganda. The country's debt service payments have been increasing, with interest payments alone accounting for a considerable portion of the government's budget. By the end of FY2021/22, debt service costs amounted to 34.1% of total government revenue [25] remain over the benchmark value of 20% all through the medium term. The increasing debt service burden constrains fiscal space in the budget, accentuating the need for more borrowing, which in turn implies more debt service expenses for future periods resulting in a viscous cycle of debt. This leaves limited fiscal space for essential public investments and social programs, exacerbating the challenges of debt sustainability.

External Debt Composition: The composition of Uganda's external debt is another critical factor to consider. The country heavily relies on concessional loans, which offer favorable terms and longer repayment periods. However, there has been a shift towards non-concessional loans in recent years, which carry higher interest rates and shorter repayment periods. As of 2022, non-concessional loans accounted for 36% of Uganda's external debt[26]. This shift raises concerns about debt affordability and the potential strain on future debt servicing. At the same time, the share of domestic debt to total public debt increased to 38.9% in 2022 compared to 36.6% in June 2021[27]. Notably, domestic debt has contributed to the rise of interest rates, which has limited access to credit to the private sector

Exchange Rate Volatility: Uganda's debt sustainability is also vulnerable to exchange rate fluctuations. A significant portion of the country's external debt is denominated in foreign currency, with the US dollar constituting 31% of total external debt, Euro (18), SDR (42%) and others[2] (9%)[28]. Exchange rate depreciation can increase the burden of debt repayment, as it requires more domestic currency to service the same amount of debt. With Uganda's economy heavily reliant on exports, external shocks and volatility in exchange rates can further strain debt sustainability.

Domestic debt risks: Total interest payments in Uganda have seen an increase from 2.8% of GDP in FY2020/21 to 3.0% in FY2021/22. This rise is largely attributed to an 18.2% increase in the stock of domestic debt between June 2021 and June 2022. Furthermore, the issuance of longer-dated instruments has contributed to higher debt service costs. Domestic interest payments remain the majority, as domestic debt carries higher costs compared to external debt, which is mostly contracted on concessional terms[29].

By end of June 2022, Uganda's domestic debt composition showed that treasury bonds, which have longer repayment periods and higher interest rates, accounted for 85% of the total outstanding debt. In contrast, short-term securities known as treasury bills, which mature in less than one year, made up 15% of the debt. Interestingly, over half of the domestic debt stock consisted of securities with maturity periods of 10 or more years[3]. This indicates a significant reliance on long-term securities, which can have implications for domestic debt service and overall debt management.

Uganda faces some challenges in maintaining debt sustainability as it recovers from the effects of COVID-19. Rising debt levels, a high debt-to-GDP ratio, increasing debt service costs, a shift towards non-concessional loans, and exchange rate volatility all pose potential risks. It is crucial for the government to implement prudent debt management strategies, enhance revenue mobilization efforts, and prioritize investments that promote sustainable economic growth[30].

3.3 Uganda's Debt management policies during and after the COVID-19 crisis

The management of Uganda's debt policies faced notable challenges due to the COVID-19 pandemic.. The country faced a sharp decline in revenue due to economic disruptions, increased healthcare expenditures, and reduced economic activity. To address these challenges, the government sought external financing, including loans from multilateral institutions and bilateral partners, to support the response and recovery efforts. During the crisis, Uganda's debt management policies had to adapt to the changing circumstances. The government focused on obtaining emergency financing, negotiating debt relief initiatives, and implementing fiscal measures to manage debt-servicing obligations.

However, Uganda did not participate in the G-20 Debt Service Suspension Initiative (DSSI), which would have provided temporary relief by suspending debt payments, allowing Uganda to redirect resources towards immediate health and social needs.

To recover and ensure long-term debt sustainability, the country can adopt prudent debt management strategies. Firstly, debt restructuring and renegotiation can help alleviate immediate financial pressures[4]. Secondly, Uganda can prioritize concessional loans with lower interest rates and longer repayment periods. Additionally, implementing effective debt monitoring mechanisms

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[2] *'others' include currencies like Japanese Yen (JPY), Chinese Yuan Renminbi (CNY), Great Britain Pound (GBP), Islamic Dinar, Saudi Riyal, Kuwaiti Dinar, Korean Won, and UAE Dirham*

[3] *MoFPED (2023): Report On Public Debt, Grants, Guarantees and Other Financial Liabilities For FY 2022/2023*

[4] *Amnesty International (2023): Building resilience: Public debt management and health financing in Uganda*

and enhancing transparency in debt management practices are essential[5]. By adopting these strategies, Uganda can mitigate debt risks and create fiscal space for post-pandemic recovery and sustainable development.

3.4 Covid-19 pandemic loans to Uganda costs, transparency, and accountability

3.4.1 COVID-19 Emergency Loans for Uganda

To address the impacts of the pandemic, the Ugandan government has received funds from various external sources, including international financial institutions and bilateral partners (See Table 3-1)

Table 3-1: Receipts for Covid-19 related Government Interventions for FY 2019/20 and FY2020/21

S/N	Funding Source	Purpose	Amount (UGX. Bn)	%ge share
1.	Loans	Budget support	4,297.40	98.5%
2.	Grants	Project support	17.98	0.4%
3.	Local cash donations	Direct support	11.60	0.3%
4.	In-kind donations	Direct support	34.55	0.8%
	TOTAL		**4,361.53**	

Source: OAG thematic audit report on COVID-19 pandemic government innervations[31]

Table 3-1 indicates that the bulky COVID response funds came in the form of loans constituting 98.5% of total COVID funds. These funds have been utilized to strengthen the healthcare infrastructure, provide essential medical supplies, and support vulnerable communities affected by the crisis. Additionally, the funding has helped implement economic stimulus measures, protect jobs, and sustain businesses.

Table 3-2: COVID-19 Funds Allocation by Sector for FY 2019/20 and FY2020/21

Sector	%ge share
Health	40%
Social Support	27%
Education	13%
Agriculture	10%
Security	7%
Others	3%

Source: OAG *thematic audit report on COVID-19 pandemic government innervations*

Table 3-2 displays the allocation of COVID-19 funds across various sectors in Uganda. The health sector received the largest share of 40%, reflecting the government's prioritization of strengthening the healthcare system in response to the pandemic. This allocation aims to enhance healthcare infrastructure, procure medical equipment, and provide support for testing, treatment, and vaccination efforts. Social support received 27% of the funds, emphasizing the government's commitment to mitigating the socio-economic impact of the pandemic. This includes cash transfers, food relief, and support for vulnerable populations affected by the economic downturn.

[5] *World Bank (2022): Uganda Can Rein in Debt by Managing its Public Investments Better*

3.4.2 COVID-19 Lending Terms and Market Comparison

Slightly over 98% of Uganda's COVID-19 response funds came from the IMF, World Bank, PTA Bank and Stanbic Bank [32] (See table 3-3)

Table 3-3 Source of Uganda's COVID-19 response funds

SN	Funding source	Modality	CURR	Amount	Amount (UGX)	%ge share
1	IMF Budget Support Loan (BoU, UDB &MOFPED)	BOU	SDR	249,725,331	1,311,057,985,758	22.8%
		UDB	SDR	88,138,352	462,726,347,915	8.1%
		Budget Support	SDR	23,136,317	121,465,666,328	2.1%
2	World Bank (Treasury)	Budget Support	SDR	218,700,000	1,148,175,000,000	20.0%
3	EU Grant(Treasury)	Budget Support	EUR	4,000,000	17,200,000,000	0.3%
4	Stanbic Bank Ltd Loan(Treasury)	Budget Support	EUR	300,000,000	1,290,000,000,000	22.4%
5	TDB (PTA Bank) Loan (Treasury)	Budget Support	EUR	300,000,000	1,290,000,000,000	22.4%
6	World Bank (MOH-URMCHIP)	Project Support	USD	15,000,000	55,725,000,000	1.0%
7	Islamic Development Bank (NMS)	Project Support	USD	13,790,000	51,229,850,000	0.9%
	TOTAL				5,747,579,850,001	100.0%

Source: OAG- thematic audit report on COVID-19 pandemic government innervations

The World Bank and IMF's lending rates to Uganda for ODA have historically been below market rates (concessional)[33]. This trend of concessionality continued and was even more important during and after the COVID-19 pandemic. However, not all lending to Uganda during the pandemic was concessional. The PTA and Stanbic banks continued to offer market interest rates, typically ranging from 5% to 10%[34] with over 10% of the Stanbic loan dedicated to insurance costs[35]

The World Bank lending rates and terms are updated and published every quarter[36] indicate that Uganda's loans acquired in 2020 and 2021 came with fixed rates (including service and interest). The Bank's lending rates were the lowest in 2020 and 2021 ranging from 2.6% to 2.8%, in 2020 and 2.8% to 3.1% in 2021. In June 2021, the IMF committed USD 1 billion under the Extended Credit Facility (ECF) which came with zero interest rate with a grace period of five and a half years, and a final maturity of 10 years[37]. The crisis notwithstanding, the World Bank maintains its budget support reform conditions on loans linked to the COVID-19 crisis. Important to note that many of these reforms were focused on the World Bank's long-term reform agenda and not directly relevant to the COVID-19 response.

While the IMF is famous for attaching conditionalties to most of its programmes, the Fund is lauded for routing much of its COVID-19 financing through programmes with little to no conditionality[38]. While the Fund's COVID-19 financing may have reduced conditionality, it still emphasized transparency, accountability, and the effective use of funds to achieve desired development outcomes.

3.4.3 Transparency, accountability of IFIs and Uganda on COVID recovery funds

The level of transparency and accountability in COVID-19 financing in Uganda has been a subject of scrutiny and concern. While efforts have been made to promote transparency and accountability, there have been reports of challenges and instances of irregularities[39].

In Uganda, there have been allegations of mismanagement and corruption in the procurement of COVID-19 supplies and the disbursement of funds. Reports have highlighted cases of inflated prices, ghost suppliers, and embezzlement of funds meant for COVID-19 response[40]. These incidents raised questions about the transparency and accountability of COVID-19 financing in the country.

The government of Uganda has taken steps to address these concerns. They have established a COVID-19 response fund and implemented measures such as regular reporting, auditing, and investigations into alleged corruption[41]. The Office of the Auditor General has been tasked with conducting audits of COVID-19 expenditure to ensure accountability[42]. The major issues of concern include;

Civil society organizations and media have played a crucial role in monitoring and reporting on the transparency and accountability of COVID-19 financing in Uganda[43]. They have raised awareness about irregularities and called for greater transparency and accountability in the use of funds.

Despite efforts to promote transparency and accountability, there has been **limited engagement and consultation with the public in the utilization of COVID-19 funds.** While Uganda had achieved considerable milestones regarding stakeholder engagement in the general budget formulation but there is no evidence for public engagement in COVID-19 resources management[44]. This lack of participation undermines trust and hampers the effective utilization of funds. Meaningful public participation is crucial for ensuring that resources are allocated to the areas of greatest need and that decisions are made inclusively and transparently.

Uganda did not have established clear guidelines and procedures for the allocation, disbursement, and management of COVID-19 funds[45]. These guidelines should outline the criteria for fund allocation, eligibility requirements, and the process for approving and monitoring expenditures

While there was significant oversight during the approval of COVID response packages, **parliament was absent during the implementation of COVID initiatives**: Enhanced oversight mechanisms would have ensured effective monitoring and accountability in the use of COVID-19 funds. Parliament instituted an audit into the expenditure of COVID-19 funds by the OAG that unearthed cases of mismanagement of the funds but without follow-up actions

3.5 Gaps in the debt management policies especially SDRs

The gaps and challenges in the management of SDRs in Uganda include;

Inadequate Reporting and Transparency: Transparency and reporting are essential for the effective management of SDRs. Uganda does not carry out disaggregated and separate analyses of SDR holdings, transactions, and utilization. Transparent reporting will facilitate accountability, enable stakeholders to assess the impact of SDRs on the country's economy, and enhance confidence in the management of these reserve assets.

Limited Integration into Monetary and Fiscal Policies: SDRs can be utilized to support monetary and fiscal policies, such as financing development projects, stabilizing the exchange rate, or reducing external vulnerabilities. However, there remains a lack of integration between SDR management and broader monetary and fiscal policy frameworks. The utilization of SDRs for instance is not embedded in the PFM framework. Aligning SDR management with these policies can help maximize the benefits of SDRs and ensure their effective utilization.

Insufficient Public Awareness and Engagement*:* Public awareness and understanding of SDRs are crucial for effective management. The Ugandan public does not have sufficient information on the nature, benefits, and potential uses of SDRs. Enhanced public engagement can foster support and collaboration, ensuring a more informed and inclusive approach to managing SDRs.

Lack of Reporting Requirements: One key reason for the opaqueness of SDR utilization is the absence of mandatory reporting requirements. Unlike loans or grants, the IMF does not require countries to disclose detailed information on how they use SDRs[46]. Since SDRs use attract interest rate but not repayment of principle, there is no evidence to utilisation for fiscal purposes is provided for in annual budget and public debt appropriations. As per the joint report by the ECA and ECLAC in April 2022, central banks have the flexibility to either hold SDRs as international reserves or provide them to their governments based on domestic legislation. In some nations, this legislation also encompasses their Treasury. However, in the case of Uganda, it appears that this aspect is not explicitly addressed.

4.0 KEY FINDINGS

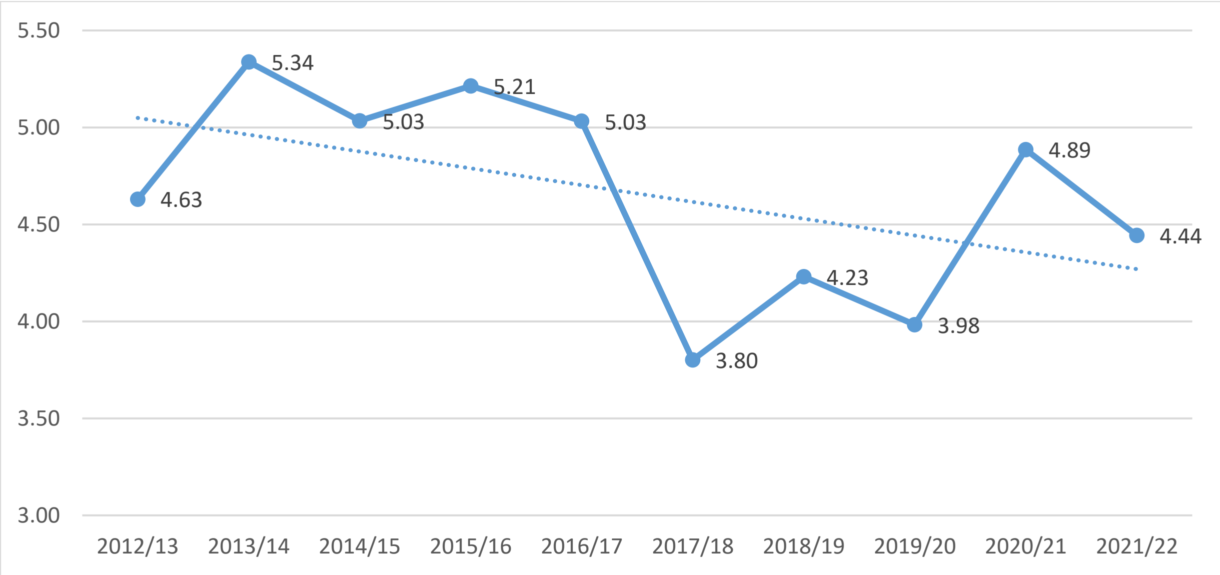
4.1 How Uganda Used the August 2021 SDRs

The SDR allocation of 2021 was beneficial for the global economy**.** It helped meet the long-term global need for reserves as well as support fiscal and external needs, including needs related to the pandemic[47]. At the same time, the allocation did not delay the ongoing macroeconomic adjustments that were aimed at reducing Inflation and public debt. Uganda has utilized the SDRs for both monetary and fiscal purposes;

4.1.1 SDR impact on Uganda's forex reserves and future SDR holding

In January 2022, the Bank of Uganda made a net purchase of reserves worth USD 141.4 million[48]. The purchase that was enabled by the acquisition of 2021 SDRs raised the gross international reserves to USD 4.2 billion (4.4 months of imports) in January 2022 from USD 3.9 billion (4.0 months of imports) in June 2020 (see Figure 4-1). In total, about 235 million 2021 SDR allocation is expected to remain at the central bank to enable the repayment of BoU advances[49]

Figure 4-1. Total external reserves in future months of imports of goods and services



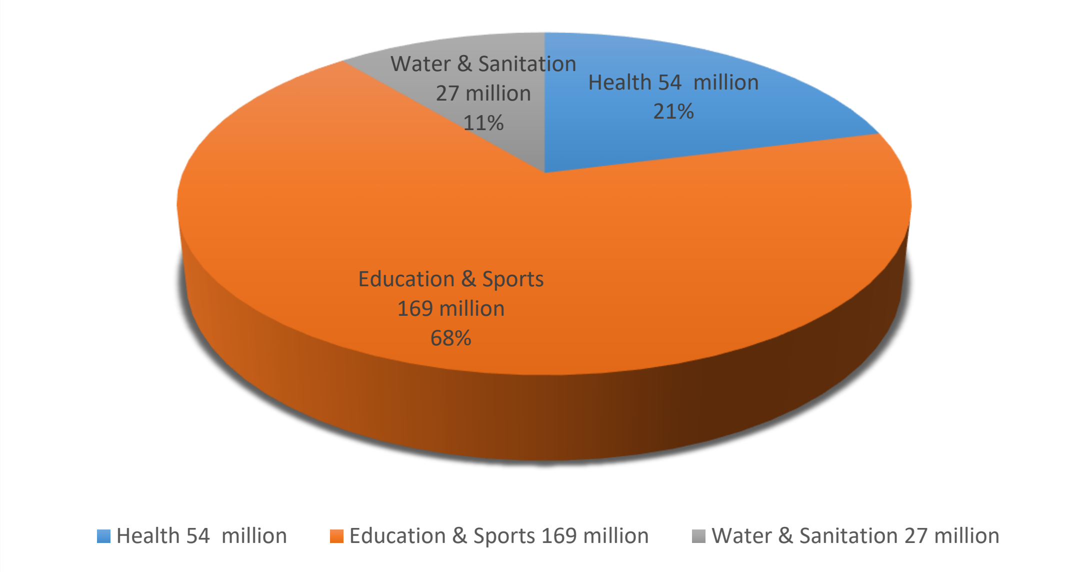
Source: BoU Balance of Payments analytical - BPM6

Figure 4-1 shows the decreasing trend of Uganda's foreign exchange reserves especially during the period preceding COVID-19. The SDR allocation pushed the country closer to the East Africa Community (EAC) target of 4.5 months of import cover.4

4.1.2 Fiscal support and Impact on social sectors

Uganda harnessed SDRs to bolster its due to COVID-19 economic strain. About half (USD 250) of the SDRs allocated in 2021 were earmarked for priority social spending in Health, Education, and water and sanitation projects (see Figure 4-2). A total of UGX 893 Billion from the SDR allocation to Uganda is expected to be expended in the budget for the FY 2022/23[50]. This approach has enabled Uganda to avoid the use of expensive finance for social projects.

Figure 4-2: Planned Fiscal Use of SDRs in Uganda (USD)



Source: Data from BoU and MoFPED Service level agreement

The investment in social sectors has enabled the acquisition of essential medicines, and health supplies including ARVs, the installation of essential water supply points, and the facilitating of school reopening[51]. See a detailed spending plan for SDR utilization in Table 4-1. However, the government has not instituted mechanisms for special monitoring and reporting on the utilization of SDRs. The annual budget performance reports also do not have dedicated sections on SDR utilization performance

Table 4-1: Planned utilization of SDR in FY2022/23

#	Intervention	USD Million
	Health	**54**
1	Supply of ARVs	13
2	Supply of essential medicines, and health supplies	11
3	Inpatient services	7
4	Others	23
	Education and sports	**169**
1	Allowances for Government-sponsored students, teaching, training & assessment of students, research and innovation	44
2	Education capitation for UPE, USE, tertiary institutions, inspection and SOPs	32
3	Assessment of examinations for candidates that will sit for UCE and UACE after the reopening of institutions	16
4	Operational expenses, including inspection of all education institutions, monitoring, supervision, rent and staff facilitation	14
5	Reconstruction of the main building and completion of lecture facilities at law school and the university perimeter wall at Makerere University	9
6	Completion of the examination storage facility in Kyambogo	7
7	Development of secondary, including rehabilitation of traditional schools	6
8	Students' Loan Scheme	6
9	Others	35

	Water and sanitation	**27**
1	Construction of a mix of 17 medium and large solar-powered systems in sub-counties with the lowest safe water coverage.	21
2	Payment of retentions for Nyarwodo GFS, Lirima GFS 6	6

Source: BoU and MoFPED Service level agreement

4.2 Best practices on the implementation of SDRs

SDRs are a valuable tool for enhancing liquidity and supporting economic stability in member countries. Implementing SDRs effectively requires adherence to best practices that promote transparency, accountability, and targeted use. By learning from these experiences, and lessons, Uganda can optimize the benefits of SDRs, contributing to sustainable development and economic stability.

Transparent and accountable allocation: African countries like South Africa[52] and Nigeria has demonstrated transparency in the allocation of SDRs. They have established clear criteria and procedures for determining the allocation, considering economic needs and vulnerabilities. Nigeria, for instance, published information on the process, including allocation amounts and purposes, fostering transparency and public trust[53].

Targeted use of SDRs: In Latin America, countries like Chile[54] and Peru[55] have effectively used SDRs to address economic challenges. Chile utilized SDRs to support its economic recovery plan, focusing on infrastructure projects, job creation, and social programs. Peru allocated SDRs towards debt reduction and poverty alleviation initiatives. These targeted approaches align with their development priorities, maximizing the impact of SDRs.

Capacity building and technical assistance: African countries like Kenya and Ghana have prioritized capacity building and technical assistance to effectively manage and utilize SDRs. Kenya, with support from the IMF, implemented training programs on financial management and project evaluation[56]. Ghana received technical assistance to enhance its capacity in monitoring and evaluation techniques[57]. These efforts empower countries to make informed decisions and optimize SDR utilization.

Collaboration and coordination: In Latin America, regional collaboration has played a significant role in SDR implementation. The Caribbean Community (CARICOM) member states worked collectively to address common challenges[58]. They collaborated on the allocation and use of SDRs, sharing experiences and knowledge. This collaborative approach maximizes the impact of SDRs and promotes regional development.

Monitoring and evaluation: African countries like Ethiopia and Rwanda have embraced robust monitoring and evaluation mechanisms for SDR implementation. Ethiopia assesses the impact of SDRs on poverty reduction targets and economic development[59]. Rwanda conducts regular evaluations to measure the effectiveness of SDR utilization[60]. These evaluations inform decision-making and improvements in future implementation.

Transparency and accountability in reporting: Countries like Mexico and Argentina, prioritize transparency and accountability through reporting. Both countries publish regular reports on SDR utilization, detailing projects funded, outcomes achieved, and lessons learned[61]. This practice ensures public scrutiny, fosters trust, and strengthens accountability.

4.3 CSOs messaging for SDRs engagement

Through an in-depth analysis of various studies, particularly the joint ECA-ECLAC COVID-19 Report[6] featuring case studies from Africa and Latin America, we have extracted essential messages that civil society organizations (CSOs) can leverage in their preparation for advocacy roles. By focusing their messaging on these key points, CSOs can effectively advocate for responsible and impactful engagement with SDRs, ensuring that these resources contribute to the well-being of all citizens and the long-term development of the country; the adapted messages include;

i. SDRs are an automatic line of credit and are available to all countries regardless of their level of income. This distinguishes them from other financing options which are determined by given macroeconomic conditions (such as the Flexible Credit Line) or on the level of income (such as PRGT funding).
ii. SDRs do not generate debt, as they do not entail an obligation for repayment of the principal. In this respect, they differ from all other financial facilities and credit lines provided by the IMF, including the emergency lines introduced in 2020 to combat the pandemic under the Rapid Credit Facility and the Rapid Financing Instrument.
iii. SDRs do not carry any associated policy conditionality. All non-pandemic IMF programmes involve some form conditionality with high social and economic costs. In this sense, beyond the agility and financial effects of SDRs, a massive issuance is the only financially inclusive instrument that can expand policy space in developing economies.
iv. Use of SDRs generates a very low, below-market interest rate (0.05%), which is advantageous for countries that have high-risk premiums.
v. SDRs increase reserve assets without countries having to incur the costs that are normally associated with reserve accumulation. The increase in reserves will improve IMF members' external position, which has deteriorated in some economies as a result of the pandemic. An improved balance of payments can help to reduce country risk, and thus the cost of domestic borrowing, and enhance countries' ability to access and leverage private financing.
vi. SDRs can be used as capital through which resources for public spending can be leveraged.

5.0 CONCLUSIONS

Economic recovery for Uganda amidst the challenges posed by COVID-19 requires a multifaceted approach that incorporates the utilization of Special Drawing Rights (SDRs) within the framework of the current global financing architecture. SDRs can provide much-needed liquidity and support to the country's recovery efforts. However, their effective implementation must be accompanied by transparent allocation processes, targeted use, strengthened governance and oversight, capacity building, and collaboration among stakeholders. By leveraging SDRs and addressing the impact of COVID-19, Uganda can navigate its way towards sustainable economic growth, poverty reduction, and the attainment of its development goals in the post-pandemic era. Some of the strategies that Uganda can employ to enhance the implementation of her SDR allocations include the following;

i. Enactment of relevant legislation for utilization of the SDRs in Uganda. This is the case with some developed countries but not common in developing countries. CSOs should also rally their advocacy on enactment of SDR specific laws.
ii. Enhancing management of the international savings account so as to always maintain adequate foreign reserves in order to have a good "Quota" of the SDRs with IMF;

[6] *ECA – ECLAC (2022): Special Drawing Rights (SDRs) and COVID-19*

iii. Maintaining a good ECF so as to cushion/release pressure on the SDRs whenever they is an allocation;
iv. Focusing on improving financial literacy among key stakeholders, including policymakers, BoU-MoFPED officials, and the general public. This will help create awareness and understanding of SDRs and their benefits.
v. Developing contingency plans every year of the budget development cycle in order to cater for in flows from IMF SDRs;
vi. Proactively engaging the IMF country office for any upcoming SDRs to allow for thorough preparations;
vii. Incorporating accountability institutions in the management of the SDRs such as CSOs in economic governance, relevant Parliamentary Committees such as of budget and finance, and public accounts to solicit options for utilization of the facility to best benefit all Ugandans.
viii. Developing a comprehensive plan for the allocation and utilization of SDRs, ensuring that they are channeled towards priority sectors and projects that promote economic growth and development. This requires effective coordination among different government agencies and ministries.

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