IMF tasks government to fight graft

Interview. The development partnership between the government of Uganda and the International Monetary Fund has been amiable since 1983. The IMF Senior Resident Representative in Uganda, Ms Ana Lucía Coronel, spoke to *Daily Monitor's* **Martin Luther Oketch**.

How much has the IMF given Uganda in development aid in terms of loans and grants since 1983 when Uganda became a member of the IMF?

The IMF has engaged intensely with Uganda over the years not only through the use of Fund resources to support balance of payments needs, but also as a participant in the process of debt relief, and notably through technical assistance and policy advice. You are interested in the amount of loans. I believe over the period 1983-2006 when Uganda was an important user of Fund resources, mainly through the Extended Credit Facility, the IMF committed about $930m (more than Shs2.4 trillion) of which about $840m (more than Shs2.2 trillion) were disbursed.

What are some of the major achievements that Uganda has registered with support from IMF as part of its development agenda?

I would say that Uganda has made a lot of progress on both macroeconomic stability and structural reforms over the last years. Two key goals of the programmes supported by IMF have been; first, the achievement of economic growth that is high, that lasts, and that is broad based and inclusive—in the sense that it benefits most sectors and most Ugandans.

The second objective has been to keep prices stable so that the population can maintain their purchasing power and consumers and investors could make decisions without uncertainty. Uganda has advanced in achieving both objectives. Economic growth has been relatively high, which has helped generate employment and reduce poverty. Some key millennium development goals have been attained, although more needs to be done to ensure that the growth gains are shared by all segments of the population, particularly the most vulnerable groups. Inflation has come down and is now at manageable levels. In addition, international reserves—the country savings—are adequate, the private sector is contributing to growth, international trade has increased, and the banking system is healthy.

As a result of this, in the last decade, more Ugandans have got access to goods and services improving in this way their quality of life; they can now have better health and education; and they have more access to markets because of improved infrastructure and increased relations with international trading partners.

In your opinion, what major challenges does Uganda face?

A big challenge that Uganda faces is how to use the country's resources to bring people out of poverty. Uganda has fertile land favourable to agriculture, enormous tourism potential, several neighbouring countries to trade with, prospects for oil production, and a well educated human capital. The challenge is to use these resources in a way that they generate productive investment and employment. This requires having a business environment that attracts domestic and foreign entrepreneurs who need clear rules, good infrastructure and an efficient workforce to work with. Fighting corruption is a major need in Uganda, as corruption is a serious impediment to growth. The practice of misappropriation of funds has to be eradicated to create an environment of trust where individuals and firms can compete fairly, and government officials can perform their duties with honesty and responsibility.

Are Uganda's current economic policies right?

Policymakers in Uganda have had to deal with difficult situations both because of economic spillovers coming from problems in other parts of the world and as a result of the domestic challenges that I just mentioned. In general, the economic policies chosen to deal with these difficulties have been adequate. Monetary policy has focused on controlling inflation by monitoring carefully, potential pressures and making sure that liquidity in the market is adequate at all times. The Bank of Uganda has the policy of allowing the market to determine exchange rates and interest rates, which has positive effects on savings and investments.

Fiscal policy has been conservative to align spending to the level of revenue and available financing. More recently, however, economic growth has been hurt by the slowdown in the global economy, domestic policies to reduce inflation and limit spending, and suspension of donor support.

Volatility in growth. The ups and downs in economic activity are costly. That is why it is necessary to carry out structural transformation to make high growth permanent and sustainable. Reforms to improve productivity, competitiveness and transparency would be key toward this end, particularly if accompanied by improvements in income distribution, including through tax and expenditure policies that would help orient resources from successful individuals and sectors to address social needs of the population.

Another crucial reform relates to improvements in public financial management to make the budget process credible, increase transparency in the management of public accounts where revenues and expenditures are recorded, and improve implementation capacity of development projects. The Public Finance Bill, currently in Parliament, provides a very useful legal framework to make this reform possible.

How does IMF view Uganda's current development policy in its effort to become a middle income country?

Implementing the reforms that I have just mentioned would allow Uganda to sustain growth in the years ahead and reach middle income country levels. The government has a medium term plan that is consistent with the objectives we are discussing. In sum, there is need to create an environment where the private sector could competitively move ahead their business ideas taking advantage of the country's resources, and the public sector facilitates this process, while making sure that economic management is compatible with macroeconomic stability. Perseverance in these policies will allow the country to gradually improve the per-capita income level.

Uganda's foreign reserve volume is currently $3.075b which is equivalent to 4.1 months of future imports of goods and services. In your view do you think there is need to increase this volume of foreign exchange reserve to guard against exogenous and internal shocks?

IMF staff assesses the current level of reserves as broadly adequate to safeguard the economy against exogenous shocks. International reserves are not only adequate in terms of months of imports, to use the measure you have mentioned, but also in proportion of key Central Bank liabilities and the stock of money in the economy. Uganda is an open economy subject to shocks that can affect economic activity and alter the level of reserves, but it also has a flexible exchange rate, which helps absorb these shocks. Bank of Uganda counts with sufficient international reserves to intervene in the foreign exchange market when it needs to smooth excessive volatility.

When was the Policy Support Instrument approved, and has it been successful for Uganda??

The Policy Support Instrument (PSI) for Uganda was approved in May, 2010. As you know, this is an instrument that the Fund uses for countries that no longer need to borrow Fund resources, but still prefers to engage in a formal agreement with the IMF to manage their economies. We call these countries "mature stabilisers". Countries that use the PSI are subject to all assessment criteria that other users of Fund resources are. At the time of the six-monthly reviews of these programmes, IMF staff presents to the IMF Board a report of the country performance, and the Board thoroughly analyses the situation, policies and economic outlook of the country. In this regard, the PSI is an important device to signal to the rest of the world the economic performance of a country. Uganda's macroeconomic performance under the PSI has been satisfactory. So far four six-monthly reviews have been successfully completed. One review at the beginning of the programme period was not completed because of some difficulties related to fiscal slippages. Something I would like to emphasize is that the PSI is the country's programme. In that regard, it has full ownership of the economic authorities, who want to carry out a plan to improve economic conditions. Of course, as is the case in any other country, there are sometimes implementation challenges mainly created by unexpected shocks. In those cases, IMF staff work closely with the economic authorities to find the way out. But, as I said, in the Ugandan case performance under the PSI has been good.

How much has Uganda been allocated in the Special Drawing Rights (SDR) and what criteria is used for the allocation?

The IMF allocates SDRs to members in proportion to their quotas, which are based broadly on their relative size in the global economy. SDR allocations provide each member with a costless and unconditional international reserve asset. Member countries may use their SDR holdings to conduct transactions with IMF.

The general SDR allocations are based on long-term global needs. The most recent one, equivalent to about US$250 billion, became effective in August 2009. A special allocation of about $35 million dollars was made to IMF members in September 2009. Uganda received its corresponding part in relation to its quota.

Anything else that you would like to say about the IMF-Uganda development partnership?

The partnership between the Government of Uganda and the IMF is a very good one. We maintain a close, frank and frequent dialogue on economic policies, perhaps facilitated by the fact that I am based in Kampala.

For the IMF, it is very important to listen carefully to the economic authorities and country officials, understand their needs, and react to them by providing policy advice and technical assistance and making use of the expertise that our Institution has acquired over time in dealing with different countries.

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Ms Ana Lucía Coronel, IMF Senior Resident Representative in Uganda.

KEY ISSUE

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